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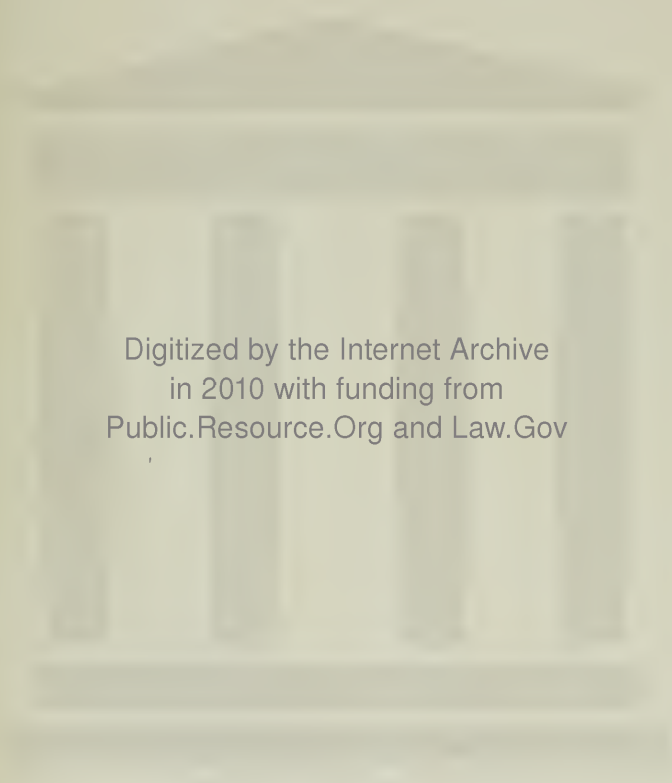
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United States  
Court of Appeals  
for the Ninth Circuit.

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THE STUART COMPANY, a Corporation,  
Petitioner,  
vs.

COMMISSIONER OF INTERNAL REVENUE,  
Respondent.

COMMISSIONER OF INTERNAL REVENUE,  
Petitioner,  
vs.

THE STUART COMPANY, a Corporation,  
Respondent.

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Transcript of Record  
In Two Volumes  
Volume II  
(Pages 401 to 666)

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Petition to Review a Decision of the Tax Court  
of the United States





No. 12845

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United States  
Court of Appeals  
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Petition to Review a Decision of the Tax Court  
of the United States



Mr. Mackay: We will call Mr. Royce.

Whereupon,

DONALD ROYCE

called as a witness for and on behalf of the Petitioner, having been first duly sworn, was examined and testified as follows:

The Clerk: Tell us your name, Mr. Witness, please.

The Witness: Donald Royce.

Mr. Mackay: Your Honor, before I examine this witness I should like to offer in evidence—I understand there is no objection from counsel—the statement showing comparative balance sheet per return dated 3-31-42, and also per books 10-31-42.

The Court: I thought we had something like that in evidence.

Mr. Mackay: I started to, your Honor. We held it back for further identification, and now we have gotten together and agreed upon it. We withdrew it in order to submit it to counsel for the other side, in order for him to see it.

The Court: Now, is there any objection to the last offer of comparative balance sheets per return for March 31, 1942, and per books for October 31, 1942? [380]

Mr. Maiden: There is no objection, your Honor.

The Court: It will be received in evidence as Exhibit No. 18.

(The document above referred to was received in evidence and marked Petitioner's Exhibit No. 18.)

(Testimony of Donald Royce.)

Mr. Mackay: I should like to offer in evidence the summary of profit and loss for the period April 1, 1941, to March 31, 1942, and also covering the period from April 1, 1942, to October 31, 1942.

Mr. Maiden: There will be no objection, your Honor.

The Court: Without objection, it is received as Exhibit 19.

(The document above referred to was received in evidence and marked Petitioner's Exhibit No. 19.)

### Direct Examination

By Mr. Mackay:

Q. Mr. Royce, what is your occupation?

A. I am in the investment business.

Q. How long have you been in that business?

A. About 28 years.

Q. 38 years? A. 28.

Q. Oh, 28. What concern are you associated with now? A. William Staats Company.

Q. In what capacity? [381] A. President.

Q. How long has that company been in business?

A. 61 years.

Q. 61 years. It is an investment house, is it?

A. It is.

Q. Does your company underwrite securities?

A. They do.

Q. Have you ever had occasion to underwrite securities for some of the drug companies?



(Testimony of Donald Royce.)

A. We have been with underwriting groups which have underwritten securities for drug companies.

Q. Can you give the names of some that you have underwritten?

A. Squibb, Abbott Laboratories, Parke-Davis, and Merck. Now, I haven't necessarily been with the company at the time they have been in these underwriting groups, but with this company or other companies.

Q. Now, whom were you with before you were with the Staats Company?

A. I was with Blyth & Company.

Q. Isn't that an underwriting office?

A. That is a national firm, headquarters in New York—and with the National City Company of New York prior to that.

Q. What position did you hold with Blyth & Company?

A. Vice-president and director. [382]

Q. In your writing endeavors, do you make analyses of the companies' balance sheets and profit and loss statements and affairs before you underwrite them?

A. We do.

Q. What was the general condition with respect to the markets, say, about November 28, 1942; just generally?

A. Oh, I would say within about 20 per cent of its—about 20 per cent of its low since the middle 30's. The industrial averages, as I recall, were around 115 at that time, whereas earlier that year,

(Testimony of Donald Royce.)

or late '41, they had gotten down to the 90's. Now, that compares with our 175 at the present time.

Q. Now, in analyzing the company's business, such as Squibbs and those that you have mentioned, for the purpose of underwriting, what importance does an investment house give or you give to trade-marks?

A. With respect to those companies, I wouldn't think that the trade-mark would enter into it.

Q. Why do you say that, Mr. Royce?

A. They are old established companies. You would go, based upon their earning record. I don't think I know of a trade-mark of any of those companies. It is not——

The Court: I can't quite hear you. I would like you to make an effort to lift your voice. You are talking down. You are talking a little too softly. Will you try to [383] speak up? Raise your head up.

The Witness: I will. In an ethical drug company there are not, as I remember them, a public acceptance of an individual item as there might be in a company that advertises and sells direct to the public, so that I do not recall any of the particular items. I am sure that if they were repeated to me, I might remember them, but I do not recall them at this time.

Q. (By Mr. Mackay): I show you Exhibits 18 and 19, and ask you if you have seen those before.

A. I saw them a few moments ago for the first time.

(Testimony of Donald Royce.)

Q. Well, had you discussed this situation and the facts in relation to the business before this time? A. I have not.

Q. Now, generally, with respect to——

A. I would like to make it clear. I have not discussed any of these financial sheets.

Q. Have you had general discussion with respect to the nature of the business of The Stuart Company?

A. Well, I have been sitting here for the last three or four hours.

Q. Yes.

A. I have known about The Stuart Company, yes, for, I would say, about a year. [384]

Q. Well, now, with respect to trade names generally, in your analyzing of accounts, what importance do they have in your underwriting?

A. These financial reports?

Q. Not these particularly; any financial report.

A. Well, I would say that they are paramount in beginning your study, that is, the first thing we would do would be to make a study.

Q. A little louder, please.

A. Would be to make a study of the balance sheet and then a very careful study of the earnings statements as far back as we could, as they were available. We would usually require three years earnings statements and would want ten years earnings statements before analyzing a company from the standpoint of an underwriting.

(Testimony of Donald Royce.)

The Court: You are talking about analyzing a company for what purpose?

The Witness: For the selling of stock to the public or to a private individual or a private corporation.

The Court: For the purpose of placing a value on the stock for sale?

The Witness: Yes.

The Court: Now, I thought the question was what consideration do you give to trade names when you analyze the financial reports of one of these companies for that purpose, [385] and I don't think you have answered that question.

The Witness: After analyzing the financial statements, there would be a regular series of things we would then consider. I would say the first considered after the financial statements, provided they were of such nature that a deal would seem to be possible, we would then study the industry in which that company operated, trying to see the type of industry it was, the future it had, and after that we would probably look at what we would call the intangibles. There would be a consideration of the management; if it is a merchandising operation, the type of sales organization, the type of sales program which they have. If it is purely merchandising, the ability of the company to obtain the merchandise which they are going to sell at a price, we will say, comparable to others in the industry. We would look at the size of the company in relation to the industry. We would look at any



(Testimony of Donald Royce.)

patents which they might have, any contracts they might have, or if there was something that put that company in a particularly favorable position due to some sort of a monopoly on the product they might be buying, or a favorable position in relation to others, those, I think, would be the intangibles, and in that group would be included the trade-mark, so it would be weighing—if we considered the trade-marks, it would be weighing their value in relation to the other intangibles and then trying to weigh what value to [386] place on the intangibles over the true balance sheet and earnings values.

I might explain it this way: If we would find a company would have a net worth, a true worth, of, we will say, \$100,000.00, you would say that a company in that industry might be entitled to earn a certain percentage on its assets position. If it was earning a great deal more than it would be entitled to earn on that assets position, then that additional earning would be regarded as due to a large extent to the intangibles. Now, how you would measure those intangibles will vary with every company, but all of those intangibles that I mentioned before, I think, would have to be regarded in relation to the part that one played to the whole, and all of them would have to be regarded as to how much additional earnings they would contribute to that company over and above the amount that company would be entitled to earn on its investment.

Q. (By Mr. Mackay): Would you assign any value at all to those intangibles, particularly a



(Testimony of Donald Royce.)

trade name, if the company showed no earnings?

A. We would not.

Q. Will you please examine Exhibit 19. That shows a loss to The Stuart Company for its first full year of operation of \$6,462.14, and a loss for the period from April 1, [387] 1942, to October 31, 1942, of \$8,989.42.

A. Under those circumstances, I am very confident there would have been no value, from the standpoint of a public distribution or sale to a private group, of that trade-mark.

Q. The record shows that The Stuart Company had carried on operations and sold products under "the Stuart formula" trade name from the beginning at April 1, 1941, to November 28, 1942, which resulted in these losses that I have referred to on Exhibit 19. In your opinion would the trade-mark have any fair market value at that time?

A. I am very confident it would not have.

Mr. Mackay: You may take the witness.

#### Cross-Examination

By Mr. Maiden:

Q. Mr. Royce, are you assuming that The Stuart Company owned this trade-mark as of the dates of those balance sheets?      A. Am I assuming—

Q. That, yes.

A. I don't—I wasn't assuming on it, it didn't make any difference to me.

Q. In other words, you simply don't put any value on that trade-mark?

(Testimony of Donald Royce.)

A. No, I would put no value on it because it had not produced anything in the way of earnings to that date. [388]

Q. Well, now, Mr. Royce, do you expect a newly organized corporation entering into an industry to make profits the first year or two?

A. Some companies will, and unless they have, I would say it would be very difficult to consider selling that company either publicly or privately at any considerable value.

Q. Well, but simply because a newly organized business didn't show a profit the first year or the first two years, doesn't necessarily mean that the company has no future prospects that would give some value to its stock?

A. In most instances it would mean that you could not realize the value at that time on it unless there is some very unusual circumstance where the company—you can see—is in an industry or has a position or has a monopoly or has a patent that almost assures them, with only reasonable management, of being successful.

Q. Would you say that that trade-mark or an intangible asset might be considered to be valuable property to the person who owned it and was using it in the operation of his business, whereas to some person who was not in the business at the time it would have no value?

A. In this type of a company I don't believe so, because I don't believe it is the trade-mark that produces the business and the profits.

(Testimony of Donald Royce.)

Q. Well, in other words, Mr. Royce, is it your testimony [389] that trade-marks actually don't produce income and have no value?

A. No, no, I didn't say that; I don't say that trade-marks have no value. I say, until they have proven that, due to that trade-mark and in spite of management or anything else, primarily due to that trade-mark they will carry on and produce profits, then I say I do not believe they have much value. I think the Coca-Cola trade-mark has a big value.

Q. Well, now, how long will you allow a newly organized corporation to show a loss before you will write that corporation off so far as investment purposes are concerned, from your standpoint?

A. It is not a question of time, it is a question of progress and position and their position in an industry. I don't think you can measure it in time, I really don't. I can tell you of companies that haven't shown a profit for a number of years, that are very valuable. I would say on this company—if you want my explanation—it would simply be comparing it with the industry, and that is why I say in this particular instance I don't think there would have been any value from the standpoint of the investment banker.

Q. Just from that standpoint of the investment banker, that is the standpoint you are speaking about?

A. That is the only thing I am talking about.

(Testimony of Donald Royce.)

Mr. Maiden: From the standpoint of the investment [390] banker. I believe that is all.

Mr. Mackay: That is all, if the Court please. May the witness be excused?

Mr. Maiden: He may be excused.

The Court: Yes, he may be excused.

(Witness excused.)

Mr. Mackay: Your Honor, at this time I am very happy to announce, if your Honor please, that Petitioner rests.

Mr. Maiden: Well, I am proud to hear that, Brother Mackay.

Mr. Mackay: Thank you. I will try to be less long on my cross-examination than you.

Mr. Maiden: I would appreciate it if we could have a five-minute recess before starting my case.

The Court: Very well, we will recess at this time.

(Short recess taken.)

The Court: You may proceed.

Mr. Mackay: If your Honor please, in my desire to close the case, I overlooked the fact that Exhibit 16, which had been marked for identification, was not received in evidence, that being a complaint which Mr. Robert Dunlap had identified and which had been drawn up by him. Your Honor, at the time I offered it I had not established that Mr. Hanisch had approved it, and I would like the privilege of asking Mr. Hanisch that question. [391]

Will you take the stand, Mr. Hanisch?

Whereupon,

ARTHUR HANISCH

recalled as a witness for and on behalf of the Petitioner, having been previously duly sworn, was examined and testified further as follows:

Direct Examination

By Mr. Mackay:

Q. Mr. Hanisch, you have been sworn. I will ask you to examine here Petitioner's Exhibit 16 which has been marked for identification, and which Mr. Dunlap identified—you heard him testify—as a complaint that he drew up and was ready to file against the corporation.

Now, I will ask you if you approved that document. A. I did.

Mr. Mackay: If your Honor please, I should like to offer this in evidence.

Mr. Maiden: There will be no objection, if the Court please.

The Court: It is received as Exhibit 16.

(The document heretofore marked Petitioner's Exhibit No. 16 was received in evidence.)

Mr. Mackay: That is all. [392]

Cross-Examination

By Mr. Maiden:

Q. Mr. Hanisch, I will ask you if you can



(Testimony of Arthur Hanisch.)

identify this (indicating) as a booklet put out by The Stuart Company.

A. It is a booklet put out by The Stuart Company. I don't mean at the present time. We have discontinued its use.

Q. I believe the booklet shows that—"Copyright 1943, The Stuart Company."

A. That is what it looks like to me. I haven't got my reading glasses.

Q. Now, I have reference to page 4 of this little booklet, down at the bottom of the page where a paragraph is encircled with red pencil. Would you read that, please?

A. (Reading.)

"The scientific process which produces The Stuart Formula is a result of over 12 years research by eminent biochemists at one of the nation's leading laboratories."

Q. To whom did you refer there?

A. California Institute of Technology.

Q. Dr. Borsook and his associates at the California Institute of Technology by name?

A. No, the names are not in the book.

Mr. Maiden: I would like to offer this in evidence.

Mr. Mackay: No objection. [393]

The Court: It is received as Exhibit Q.

(The document above referred to was received in evidence and marked Respondent's Exhibit Q.)

(Testimony of Arthur Hanisch.)

The Court: Now, let me just say that, before we go on to Respondent's case, we had better take care of Exhibit 13 for identification, the opinion of Miller & Hazard.

Mr. Mackay: Well, if your Honor please, I recognize counsel's objection to it, and I will withdraw my offer.

(The document heretofore marked Petitioner's Exhibit No. 13 was withdrawn.)

Q. (By Mr. Maiden): Now, Mr. Hanisch, I would like for you to identify that letter (indicating), if you can, from the American Medical Association to The Stuart Company.

Mr. Mackay: What date?

Mr. Maiden: This is dated April 24, 1942.

The Witness: I don't recall this letter. It undoubtedly was sent to The Stuart Company, Pasadena, according to the address, but I don't recall it.

Q. (By Mr. Maiden): I will ask you if you can identify what purports to be a copy of a letter from The Stuart Company, addressed to Dr. Franklin C. Bing, secretary of the Council on Foods and Nutrition, American Medical Association, as being in answer to this letter from the Medical Association of April 24, 1942. [394]

Take your time, enough to satisfy yourself.

A. Shall I answer that question?

Q. Yes.

A. I recall the circumstances of this letter and

(Testimony of Arthur Hanisch.)

other letters of the same type where we received inquiries regarding the technical nature of the product, and this was an inquiry from the American Medical Association who had undoubtedly had doctors ask them what was the nature of The Stuart Formula. Then the American Medical Association will write the company involved and ask for a technical description of the product. It was our policy, and it was a special policy in agreement with Mr. Lewis and Dr. Borsook, that any matter of that type had to be referred to him. You will notice there is no initialing at the bottom of the letter. I recall the circumstances, that Mr. Lauerhass took that letter to probably both Mr. Lewis and Dr. Borsook—in any event, one of them—and this letter was written by them.

Mr. Maiden: I would like to offer this in evidence as Respondent's exhibit next in order.

Q. (By Mr. Maiden): While counsel are considering that exhibit—

Mr. Mackay: There is no objection to that.

The Court: No, no; let's just take one exhibit at a time. There is something like a parliamentary rule that when you have one motion before the house you can't have a [395] second motion before the house.

Mr. Mackay: There is no objection to those two letters.

Mr. Maiden: Let the letter of April 24, 1942, go in evidence as Respondent's Exhibit R.

(Testimony of Arthur Hanisch.)

The Court: Now, let me see that letter just a minute.

Mr. Maiden: That is the letter from the American Medical Association.

The Court: There is no objection to the American Medical Association letter?

Mr. Mackay: None at all.

The Court: That is received as Exhibit R.

(The document above referred to was received in evidence and marked Respondent's Exhibit R.)

Mr. Maiden: Now, I would like to offer in evidence the letter of The Stuart Company, dated June 15, 1942, to Dr. Franklin C. Bing, in answer to the American Medical Association letter.

The Court: Now, the testimony is that this was written by The Vita-Food Company but it was sent over the name of The Stuart Company, is that right?

The Witness: Your Honor, that isn't quite what I said, no.

The Court: What do you mean? Let's see [396] whose letter that is supposed to be.

The Witness: That is a letter signed by The Stuart Company. We, having no technical men in our organization at that time, had a verbal agreement with Dr. Borsook and Mr. Lewis that whenever that type of problem came up where we had to answer a technical situation, particularly a situation as important as the American Medical Association, that we had to let them supply that

(Testimony of Arthur Hanisch.)

information. It was written on our stationery, but the information was supplied by either Mr. Lewis or Dr. Borsook, or both. That was our general policy.

Mr. Maiden: Then, from that information you prepared the particular letter we are considering?

The Witness: I don't know whether the letter was actually dictated in our office or in Dr. Borsook's office or where it was dictated.

Mr. Mackay: No objection.

The Court: That is received in evidence as Exhibit S.

(The document above referred to was received in evidence and marked Respondent's Exhibit S.)

Mr. Mackay: I have one question.

### Redirect Examination

By Mr. Mackay:

Q. I want to call your attention to this little booklet which I think is Respondent's Exhibit Q, and call your attention to the last paragraph: "The **scientific process which [397] produced The Stuart Formula** is the result of over 12 years of research by **eminent biochemists** at one of the nation's leading laboratories."

Now, I will ask you if you understood the question counsel asked you with respect to that?

A. Whether I understood it——

Q. Counsel's question as to whom you referred



(Testimony of Arthur Hanisch.)

to when you said, "one of the nation's leading laboratories"—has been developed after 12 years' experience.

A. No, I did not. I must refer to the date. This is 1943, and I had a complete misconception of your question. I assumed when I answered the question that this was a booklet that we had out before our cancellation agreement.

Q. What does that refer to—"the nation's leading laboratories"?

A. This refers to the William T. Thompson laboratory.

Mr. Mackay: That is all.

#### Recross-Examination

By Mr. Maiden:

Q. Mr. Hanisch, isn't it a fact that the William T. Thompson Company and The Stuart Company were cited by the Food and Drug Administration for mislabeling products put out by The Stuart Company and manufactured by the William T. Thompson Company?

Mr. Mackay: Just a moment. Your Honor, I object to [398] that as entirely beyond the field of cross-examination. That was not gone into at all, and this relates to a period, anyway, subsequent to the time involved. I suggest it is entirely incompetent, irrelevant, and immaterial.

The Court: Objection sustained.

Mr. Maiden: That is all, if the Court please.

(Witness excused.)

Mr. Mackay: Now, if your Honor please, I have given further consideration to the attorney's opinion, the patent attorney's opinion. I think, if your Honor please, in view of the fact that the question in this case is as to the intent of the parties here and what led them to enter into the contract of November 28, 1942, that the opinion is proper evidence and therefore I renew my offer again for the limited purpose which I have already explained.

The Court: I think you have it marked as Exhibit 13, do you not?

Mr. Mackay: I think it is marked as Exhibit 13 for identification, the Hazard & Miller opinion.

The Court: Off the record.

(Discussion off the record.)

The Court: Back on the record.

Now, Mr. Mackay, it is a while back since you have stated the purpose of the offer which you state is for a limited purpose, and I would like to see that proposed exhibit [399] for just a minute. This is, as I understand it, Mr. Mackay—and you can check with me on this—this is in the nature of a memorandum setting forth the legal opinion of Hazard & Miller, attorneys and counselors in patent causes, written on their letterhead, dated November 17, 1942, and it covers 14 pages.

Is it correct that this represents an opinion in memorandum form by that law firm?

Mr. Mackay: Yes, your Honor.

The Court: It is signed by Fred Miller. Who is Fred Miller?

Mr. Mackay: He was one of the members of the law partnership. He was a patent attorney hired by The Stuart Company to write that opinion.

The Court: Now, does the record show that The Stuart Company requested this opinion?

Mr. Mackay: Yes, your Honor, Mr. Robert Dunlap so testified—Mr. Hanisch.

The Court: Does the record show when the opinion was requested? This is dated November 17th, and the settlement agreement which is Exhibit 12 is dated November 28th. Now, does the record show at what time this opinion was requested? It takes a little time to prepare these, Mr. Mackay.

Mr. Mackay: I don't think it does, but I think Mr. Dunlap could tell you that. [400]

The Court: I will ask you that, Mr. Dunlap.

Mr. Dunlap: May I refer to my diary, your Honor? I want to give the exact date if I can.

September 29th, your Honor.

The Court: What year?

Mr. Dunlap: 1942.

The Court: I think maybe it would be well if you resume the stand. I may want to ask you a few questions about this.

Whereupon,

ROBERT H. DUNLAP

recalled as a witness for and on behalf of the Peti-



(Testimony of Robert H. Dunlap.)

tioner, having been previously duly sworn, was examined and testified further as follows:

The Court: Now will you state the limited purpose of your offer, Mr. Mackay?

Mr. Mackay: My purpose, if your Honor please, is to show that The Stuart Company obtained an opinion regarding the ownership and the proper registration of the trade name, "the Stuart formula," and that this opinion has a bearing, and it is offered only for that purpose of showing what was in their minds at the time they entered into the agreement of settlement of November 28, 1942.

The Court: Now may I ask the witness a few questions? [401]

Mr. Mackay: Yes.

### Direct Examination

By the Court:

Q. I would like you to look at Exhibit 13, Mr. Dunlap. This is in the nature really of a foundation for the receipt of the exhibit if it should be received. At least, it is in my opinion necessary to have a little bit more information about the nature of that memorandum and how it was regarded by The Stuart Company.

Did you request that opinion or did Mr. Hanisch request it upon your advice?

A. I recommended that we have counsel take a look at the trade-mark situation and find out what the rights of the parties were.

(Testimony of Robert H. Dunlap.)

Q. As a matter of what law, federal law or state law?

A. As a matter of federal law, and also state law.

Q. Now, does that opinion relate to the rules of law that would be applicable under federal law or state law?

A. Primarily federal law, your Honor.

Q. Does the opinion set forth any law itself?

A. Yes, the statute is quoted and also numerous decisions are quoted from.

Q. That is the 1920 federal law?

A. That is correct.

Q. It has been referred to as the 1920 statute. How [402] is that statute known?

A. The Act was known as the 1920 trade-mark law. It differs from the 1905 law because——

Q. All right, that is all right.

A. Pardon me.

Q. Now, the cases that are cited there, are they federal decisions?

A. I think there are some state cases also.

Q. You are a lawyer, of course?

A. Yes, indeed.

Q. Is that drafted in the form of a legal opinion?

A. It is, with supporting citations.

Q. To what extent is The Vita-Food Corporation or The Stuart Company mentioned in the opinion, the memorandum?

A. Well, the contract refers to the title of—for instance, just for illustration, here on page 13: “In-

(Testimony of Robert H. Dunlap.)

sofar as the contract of May 5, 1941, purports to vest title in Vita-Foods, it is a nullity."

Q. Then, the opinion undertakes to pass upon the validity or lack of validity of some clause of the agreement of May 5, 1941?

A. Yes, your Honor.

Q. Now, you must have put a question to counsel when you asked them to prepare that opinion. Do you remember what question you put to them? Do they set it forth there? Do [403] they say, "In answer to your questions," or anything of that kind?

A. Yes, your Honor. The first paragraph says, "You have requested my opinion as to whether United States Trade-Mark No."—blank—"issued September 8, 1942, to The Vita-Food Corporation, would be subject to cancellation on the petition of The Stuart Company."

That was the question which was answered in this opinion.

Q. Cancellation by the Patent Office or the Commissioner of Patents in Washington?

A. Commissioner of Patents, yes, your Honor.

Q. So that, in your opinion, is that memorandum clear with respect to what questions counsel were advising you upon?

A. Yes, your Honor. I would like to say this: I had several other discussions with Mr. Miller in which opinions were given on related questions, but this written opinion has to do only with that one phase of the question.

(Testimony of Robert H. Dunlap.)

Q. Now, when you received that opinion on or about November 17, 1942, what was the status of the controversy? I recall that the Complaint had been filed in the Superior Court by The Vita-Food Company.

A. That is not correct, your Honor. The complaint was filed eight days later. The status of the dispute was this: I had made an appointment to meet Mr. Wiseman in Mr. Miller's office. I did meet him at that time, and at that time I [404] received his opinion.

Q. Did you keep your appointment, did you go to see Mr. Wiseman? A. Oh, yes.

Q. Did you have the opinion with you when you went to see him?

A. He met me at Mr. Miller's office, and I got the opinion there.

Q. Well, what I am getting at is, did you discuss this problem with Mr. Wiseman and tell him in your discussion that you had received the opinion, or did you get the opinion after you had parted that day?

A. No, I had the opinion and I told him that we were certain that the trade-mark registration wasn't worth the paper that it was written on and we were the owners of the trade-mark "the Stuart formula."

Q. Did you tell him that you had gotten that opinion from Hazard & Miller? A. I did.

Q. Did he see it?

A. That I don't recall, your Honor.

Q. Did you show it to him?

(Testimony of Robert H. Dunlap.)

A. I can't recall that. I don't think I did.

Q. Did he have a conference with you in the Miller offices with Mr. Miller? [405] A. No.

Q. You say you met him at Miller's office?

A. As a matter of convenience to me.

Q. You just met there?

A. That is correct.

Q. You didn't have a conference there?

A. We sat around. I think we talked about 20 minutes in his office, yes.

Q. In whose office?

A. I think—my recollection is, your Honor, that we used one of the offices in the Hazard & Miller suite.

Q. Well, just to talk between yourselves?

A. That is right. I may have introduced Mr. Wiseman to Mr. Miller; I don't recall.

Q. Then, it was after that that they filed their complaint? A. That is right.

Q. So that, before they filed their complaint, you had told them that you had serious doubts whether their registration of that trade-mark was any good?

A. I went stronger than that. I said the registration was no good.

Q. You told them that before they filed their complaint? A. I did.

The Court: So, as I understand it, Mr. Mackay, you [406] offer Exhibit 13 to show that, upon asking for this advice, The Stuart Company received the advice as stated in this memorandum from Fred Miller, and that it was their understanding that the



(Testimony of Robert H. Dunlap.)

federal law was as stated in this memorandum?

Mr. Mackay: Yes, your Honor, that is the purpose.

The Court: Then, we have to take into consideration that they had given certain facts to Mr. Miller, and, of course, we don't know exactly what the facts are that they told Mr. Miller.

Mr. Mackay: That is quite right.

The Witness: Pardon me, your Honor. The letter states what facts.

The Court: Then, the letter states the facts upon which the opinion was based?

Mr. Mackay: Yes, your Honor.

The Court: Then, in that respect the memorandum is a complete memorandum. It states the proposition, states the lawyer's understanding of the facts, and states his analysis of the statute and the authorities that he is relying upon.

The Witness: That is right.

The Court: Is there anything else that you think Mr. Dunlap should be asked about this exhibit?

Mr. Mackay: No, I think that is all.

The Court: Now, Mr. Maiden, if you want to renew your objection—do you want to ask Mr. Dunlap some questions [407] about this?

Mr. Maiden: No; I think your Honor has covered all of the questions that might be asked on that exhibit.

I submit, if the Court please, that the exhibit is incompetent for the reasons that I previously

(Testimony of Robert H. Dunlap.)

stated, that it in effect permits testimony in this case of a person without my being permitted to cross-examine him.

The Court: Now, is it really true that this memorandum is a memorandum of any testimony that anyone would give? You and I are acquainted with legal memoranda, and if that is received in evidence, Mr. Maiden, it seems to me that you would have an opportunity on brief, if you wanted to, to attack the soundness of the legal propositions set forth in that memorandum. That is a legal memorandum. The case law is given, the statute is given, the conclusions of the attorney who prepared it are set forth, but he gives the legal authority upon which he bases his opinion.

Now, his client relied upon his opinion, it was a professional opinion, and I don't think a legal opinion reduced to writing is in the nature of testimony. I don't know how you could cross-examine a lawyer on his legal opinion unless you brought in some law books to challenge the propriety of his legal analysis and the validity and soundness and appropriateness of his citations.

Mr. Maiden: May it please the Court, the proper way, [408] as I see it, to present this opinion or memorandum in evidence would be to put on the stand Mr. Miller and let Mr. Miller state that he prepared this memorandum, so that the Respondent would have an opportunity to cross-examine him on it, to see just what facts he assumed to be facts.

The Court: Well, now, do you object to that



(Testimony of Robert H. Dunlap.)

document on the basis of lack of proper identification?

Mr. Maiden: No, your Honor, I object to it upon the ground of incompetency.

The Court: So you don't question his signature or that it was prepared by Mr. Miller?

Mr. Maiden: No; Mr. Mackay wouldn't present anything that wasn't correct.

Mr. Mackay: Thank you.

The Court: But you object to it on the basis of incompetency?

Mr. Maiden: Yes, your Honor.

The Court: Now, my ruling is this: The document has been offered for the limited purpose of showing, (1) what advice was given to The Stuart Company by Mr. Fred Miller, and (2) what the understanding of The Stuart Company was on the matter of whether there could exist any doubt about the legal ownership by The Vita-Food Corporation of this trade-mark; and for that limited purpose it seems to me that this is not objectionable. It appears from the evidence that we have [409] up to this point that there arose doubt in the minds of Mr. Dunlap and Mr. Hanisch about the previous understanding they had had, that the trade name "the Stuart formula" was as a matter of law, owned by The Vita-Food corporation, and because of that doubt a legal opinion was requested, and then, on the basis of that legal opinion, The Stuart Company and its management came to believe that The Vita-Food Corporation really did not own that trade

(Testimony of Robert H. Dunlap.)

name and that there had been a misconception and misunderstanding up to a certain time about that point as a matter of law, and it is to be inferred from the record that we have so far that The Vita-Food Corporation did not agree with Mr. Dunlap and Mr. Hanisch.

As a matter of fact, I think we might ask you that. Did Mr. Wiseman or Mr. Lewis agree with you that they had no interest in that trade name?

The Witness: They did not.

The Court: Well, over the objection of Respondent, this is received as Exhibit 13.

(The document heretofore marked Petitioner's Exhibit No. 13 was received in evidence.)

Mr. Maiden: Your Honor, it is no longer necessary to note exceptions, is it?

The Court: Well, you may note them if you wish.

Mr. Maiden: I desire to note an exception to your Honor's ruling. [410]

The Court: I might observe that if you want to ask Mr. Miller to testify, you still have an opportunity to, because I understand this trial will continue tomorrow, and, as I have pointed out before, if you want to question the soundness of his legal opinion, you may do so in your brief.

Mr. Maiden: Well, your Honor, I have no fear of that exhibit because the issue in this case is not who had the title, but whether or not The Stuart Company acquired from Vita-Food Corporation whatever right Vita-Food Corporation had in and

(Testimony of Robert H. Dunlap.)

to the trade-mark. Of course, it is our contention that The Vita-Food Corporation did in fact and in law own the trade-mark.

The Court: Of course, you would argue in your brief, I expect, that Vita-Food Corporation as a matter of law owned the trade name, and so, as you probably will make that argument in your brief and it will have to be answered by Petitioner in his brief, it seems to me that this memorandum is really properly in the record, because it shows the opinion of an attorney who, I think we will all have to agree, is recognized here in Los Angeles as being competent to give that opinion. Now, to that extent, Mr. Dunlap, I think we should ask you who Mr. Fred Miller is, for the record in this case.

The Witness: He is a patent attorney in the City of Los Angeles, specializing in patent and trade-mark cases.

The Court: How long has he practiced [411] here?

The Witness: Since about 1928—'27 or '28, your Honor.

The Court: Do you know anything about his reputation?

The Witness: Yes, he is regarded among the first five or six able patent attorneys in this city.

The Court: Is there any doubt about that, Mr. Maiden?

Mr. Maiden: No. I have never heard of Mr. Miller, if the Court please, but I am not very widely

(Testimony of Robert H. Dunlap.)

acquainted here in Los Angeles. I assume Mr. Miller is a competent attorney.

The Court: Well, now, if there is any doubt about that—the opinion of Mr. Miller has been received in evidence—if Respondent has any doubt about whether he is a competent lawyer, I think you should call him and at least ask him something about his qualifications. If you can find any flaws with his opinion when you go into your research, why, you will have an opportunity in your brief to point out whatever flaws you find.

Mr. Maiden: As I analyze the case, if the Court please, I don't consider that that opinion is really relevant and material to the crucial issue that the Court is asked to decide in this case for this reason: If this agreement of November 28, 1942, was for the purpose of protecting and/or clearing title to this trade-mark as being the property of [412] The Stuart Company, then clearly the consideration paid to The Vita-Food Corporation by The Stuart Company would not be a deductible expense.

The Court: Is there anything further on this point?

Mr. Maiden: I wanted to ask a couple of questions, if your Honor please.

The Court: Proceed.

Mr. Maiden: Did you get any other opinion relative to this matter, Mr. Dunlap?

The Witness: We did.

Mr. Maiden: Where is that opinion?

The Witness: I thought I had it here, but apparently I don't, counsel.

(Testimony of Robert H. Dunlap.)

Mr. Maiden: If the Court please, I would like to make the request at this time of Mr. Dunlap that he obtain the opinion that he received from some other lawyer.

The Witness: I will be glad to.

Mr. Maiden: So that it may likewise go in evidence in this case before it is closed.

The Witness: I will be glad to.

Mr. Maiden: Mr. Dunlap, what was the opinion given by the other lawyer?

The Witness: It disagreed with Mr. Miller—initially.

Mr. Maiden: Well, you bring that opinion [413] in.

The Witness: Certainly.

Mr. Maiden: That is all.

Mr. Mackay: Now, you say he disagreed initially. What was his final opinion?

The Witness: I have letters on that.

Mr. Mackay: That is all.

We rest, your Honor.

Mr. Maiden: Call Mr. Oscar Wiseman to the stand, please.

Whereupon,

### OSCAR WISEMAN

called as a witness for and on behalf of the Respondent, having been first duly sworn, was examined and testified as follows:

The Clerk: Tell us your name, Mr. Witness, please.



(Testimony of Oscar Wiseman.)

The Witness: Oscar Wiseman.

Direct Examination

The Witness: Your Honor, may I state one little thing in the interest of saving time?

The Court: I don't know whether this is proper or not.

Mr. Maiden, what is the trouble here?

Mr. Maiden: Well, I don't know.

The Court: You speak to your counsel about that.

The Witness: I want to clear up—— [414]

The Court: Would you mind stepping down from the stand? You are so close to me that I can hear you.

We will recess for a few minutes.

(Short recess taken.)

The Court: Proceed, gentlemen.

Mr. Maiden: If the Court please, I would like the record to show before the examination of Mr. Wiseman that Mr. Wiseman has the full consent and approval of The Vita-Food Corporation and Mr. M. H. Lewis to testify in this case with respect to these negotiations, and they gave him full approval to make any disclosures it is necessary for him to make.

Mr. Mackay: Well, we assumed that that would be so when you put him on the stand as a witness.

Q. (By Mr. Maiden): Mr. Wiseman, what is your present occupation?

A. Attorney at law.

(Testimony of Oscar Wiseman.)

Q. How long have you been an attorney at law?

A. Fifteen years plus.

Q. Where have you practiced?

A. In Los Angeles, California.

Q. Have you practiced in any particular field of law?

A. Well, my practice has been general. I have done considerable corporation work and considerable trade-mark work.

Q. Mr. Wiseman, at the inception of The Vita-Food Corporation were you an officer of that corporation? [415]

A. At the inception, no. I had no connection with The Vita-Food Corporation until the summer of 1941. I didn't know about this May 5, 1941, contract, had nothing to do with it or any of the negotiations of the parties at that time.

My duties came into being in the summer of 1941.

Q. In what connection did you first become connected with The Vita-Food Corporation?

A. Well, as I recall it, the first matter I handled for Vita-Food was a trade-mark infringement case against—it was the Rice or the Boyle Laboratories. They were copying a label.

Q. What label were they copying?

A. I believe it was "the Stuart formula" label.

Q. What was the result of that litigation?

A. Well, there was no litigation on it. The products were sold—one, I think, was sold through Sontag Drug Stores, locally and one through Thrifty Drug Stores locally, and in both cases I was



(Testimony of Oscar Wiseman.)

able to obtain cease-and-desist agreements in writing, and rather soon.

Q. Who paid you for the services rendered in that connection?

A. The Vita-Food Corporation.

Q. To your knowledge did The Vita-Food Corporation pay for all of the expenses in that connection?

A. Yes. [416]

Q. Now, Mr. Wiseman, were you ever at any time an official of The Vita-Food Corporation?

A. Yes, I became a vice-president of the corporation the latter part of 1941.

Q. Did you become Vita-Food's regularly employed attorney likewise?

A. I was on a retainer agreement and I was their principal counsel from the fall of 1941 until the summer of 1943.

Q. Do you now have any connection with The Vita-Food Corporation, either as an official of the company or as an attorney for the company?

A. No.

Q. How long has it been since you have had any connection with the company, of any kind?

A. Well, in a legal capacity I have had no connection with the company whatsoever since August of 1943.

Q. In an official capacity as an officer?

A. Or in an official capacity. I resigned as vice-president and I resigned as counsel in August of 1943.

Q. There has been no connection since then?

(Testimony of Oscar Wiseman.)

A. No—there were some business dealings, but they were at arm's length and had nothing to do with any services for them.

Q. Now, Mr. Wiseman, will you tell the Court when you first became aware of any claim by The Stuart Company that it [417] had any right or interest in and to this trade-mark?

A. November 18, 1942, when in a meeting I had with Mr. Dunlap at the office of Hazard & Miller he mentioned something about it.

Q. Well, do you recall in substance what he said?

A. I think so.

Q. Would you please tell us, briefly?

A. Well, Mr. Dunlap and I met in that office at his request to discuss the notice of cancellation which I had signed and given to them approximately on October 8, 1942. He asked me why we had limited it to, I believe it was, paragraph 6 or 7, having to do with their exclusive agency, and I told him that the reason we did that was to make it as easy as possible on them. In connection with that, he raised the point that he felt that they could, if they wanted to, claim the ownership of the trade-mark. I asked him upon what basis, and he told me that he had gotten an opinion from a San Francisco firm of attorneys and that he thought they could contest it.

I told him that that was utter nonsense, that they could not by any possible stretch of the imagination assert any claim to the trade-mark, and I told him my reasons. I opened my briefcase and I showed

(Testimony of Oscar Wiseman.)

him a photostatic copy of the registration of the trade-mark, "the Stuart formula." I showed him a photostatic copy of the federal registration of the mark, and [418] then I took out of my briefcase the May 5th contract and showed him the paragraph which recited that it was our property, and I told him this: I said, "In view of the record title that we have, in view of the fact that your company has estopped itself by an agreement that it signed in May of 1941, it is utterly ridiculous that you should make any claim whatsoever to this trade-mark, and there will be no discussion and I will not participate in any discussion for settlement or otherwise if such claims are asserted. If you want to talk on a sensible basis, we will discuss this case, but not on the basis that you have any claims to this trade-mark."

Q. Was anything said at that time about The Stuart Company purchasing the trade-mark?

A. Yes.

Q. Would you tell the Court just what occurred in that connection?

A. Well, that came up secondarily. Mr. Dunlap's first offer was to buy The Vita-Food Company, its plant and all its facilities, and I believe his offer was \$15,000.00.

I told him we weren't interested in that, and I told him that if that was the type of offer he had in mind, that we really did not have anything to discuss further and that he could stand on whatever

(Testimony of Oscar Wiseman.)

they thought their legal rights were and we would do the same.

Q. What did you understand from that first conference [419] that The Stuart Company was really interested in obtaining from The Vita-Food Corporation?

Mr. Mackay: Just a moment. If your Honor please, may I have that question?

The Court: Will you read the question?

(The question was read.)

Mr. Mackay: If your Honor please, the witness has already testified that there was an offer there to buy the business. I think the question is improper.

Mr. Maiden: Well, if the Court please, he, Mr. Wiseman, was there, and he can tell the Court what in his opinion, from the nature of the discussion, he conceived to be the thing that The Stuart Company really wanted to obtain from The Vita-Food Corporation.

Mr. Mackay: I think if it were limited to the substance of the conversation there wouldn't be any objection. I object to that as calling for the conclusion of the witness.

The Court: Objection sustained.

Mr. Maiden: I was simply trying to go to the intention of the parties, if the Court please.

The Court: Well, the Vita-Food Corporation had taken the first step and served the notice of cancellation, and your question has in it a conclusion. If you want to develop the facts from the

(Testimony of Oscar Wiseman.)

other side, that is all right, but I think the question was an improper question. [420]

Mr. Maiden: Very well, your Honor.

Q. (By Mr. Maiden): Mr. Wiseman, this first meeting was on November 18, 1942, is that correct?

A. November 18, 1942.

Q. That was after the issuance of the notices by both parties? A. Yes.

Q. Tell the Court whether or not the discussion turned around the claim of The Stuart Company that its——

The Court: It is a leading question, Mr. Maiden. Why don't you ask him what the subject-matter of the discussion was?

Q. (By Mr. Maiden): Will you tell the Court everything that happened with respect to the trade-mark at that first meeting?

The Court: What do you want to do? Do you want to center this testimony just on one thing, or do you want this witness to testify about what happened?

Mr. Maiden: Well, your Honor, I want the witness to tell what took place at this first conference with respect to the trade-mark. That is the one thing I am interested in in the case.

The Court: Well, Mr. Mackay, have you any objection to that question? [421]

Mr. Mackay: Yes, I think the question is too broad. He says, tell everything you know and take a lot of time. I think Mr. Wiseman would take a lot of time to tell us that. I object to it for that reason.



(Testimony of Oscar Wiseman.)

The Court: Well, Mr. Mackay, it seems to me in the presentation of your case you covered about everything that happened from the entering into a contract to resell the product up to the termination of the contract. Now, there are always two sides to a story. There are always two sides to a question.

Mr. Mackay: Yes, your Honor.

The Court: The theory of the Petitioner and the theory of the Respondent are quite far apart. Now, if the Respondent is going to direct his questions just to one part of the other side's concerns, if I may put it that way, then the Court isn't going to have the whole story about the other side's concerns. If that approach is taken, is that going to lead to the asking of questions which will be objectionable under usual rules? Is that something to keep in mind or have you no concern about that?

Mr. Mackay: No, if your Honor please, it is not my purpose, and I probably used the wrong word in my objection. It is not my purpose to keep the full story from the Court. I have no objection to this witness' testifying as to the substance of conversations and the negotiations leading up to [422] that. I just assumed from that that the question was a little too broad.

The Court: I thought it was a narrow question. I thought it was a question related to one subject that might have been discussed.

Mr. Mackay: Well, I may have misunderstood

(Testimony of Oscar Wiseman.)

that question. It is not my purpose to keep the Court from having both sides. I want them to have a fair hearing. I will withdraw the objection.

The Court: The Respondent's line of questioning seemed to start off by limiting the Respondent's evidence to just one particular matter. Now, if that is going to be the procedure, then the Court is going to have all the story on one side and part of the story on the other, and that is going to make it very difficult.

Mr. Maiden: No, your Honor, I am going to give you the full story on this side, but for the purpose of that one question I wanted to ask the witness to what extent the trade-mark entered into the first discussion between Mr. Wiseman and Mr. Dunlap.

The Court: Well, I think, Mr. Maiden, I will ask the question, because I am somewhat troubled about your question, and there has been some objection to it, I believe.

Now, what meeting are you talking about?

Mr. Maiden: That is the first meeting, of November 18, [423] 1942, in the office of Miller & Hazard, or Hazard & Miller.

The Court: Where did that meeting take place?

The Witness: It took place in the Lane Mortgage Building at Main and Eighth Streets, in Los Angeles.

The Court: In whose office?

The Witness: The office of Hazard & Miller.

The Court: What was discussed at that meeting?



(Testimony of Oscar Wiseman.)

The Witness: Principally the sale of all of the assets and all of the properties of The Vita-Food Corporation, a rehashing of a lot of complaints that Mr. Hanisch had against Mr. Lewis and The Vita-Food Company, a lot of threats about litigation that they were going to bring, a discussion of the humanitarianism of the various parties on both sides. It was a very general discussion and took a little bit over an hour.

The Court: All right.

Q. (By Mr. Maiden): Was any offer made at that conference to purchase the trade-mark?

The Court: Now, Mr. Maiden, the question was, what was discussed at the meeting and the witness answered the question. Now, did you leave anything out of your answer?

The Witness: Well, I did not relate all that was discussed. I merely outlined what the basis of the discussion was.

Mr. Maiden: Well, I want it in detail. [424]

The Court: You know what the trouble is with leading questions, don't you?

The Witness: Yes.

The Court: And you know the way to avoid asking a leading question is to ask the witness to state in his own words what happened, or anything else. Now, I asked you to state in your own words what happened, to get away from counsel for the Respondent asking you a leading question. Now, if you haven't fully answered the question that the Court asked you, please do so now.

(Testimony of Oscar Wiseman.)

The Witness: All right. Mr. Dunlap told me that Mr. Hanisch had sustained some very substantial losses over a year and a half period, and that he wanted to put a stop to those losses.

I told him that that was perfectly agreeable to me. We had served our notice of cancellation and we were willing to abide by that. We had no desire to cause them any harm. However, we did desire to insist upon our legal rights, and it was my purpose as counsel for The Vita-Food Corporation to preserve those rights.

I think he brought up—I recall that he brought up something to the effect that in view of our limited cancellation, that possibly they could not sell other products.

In that connection I told him that it was not our purpose to stop them from selling anything they wanted to— [425] any other vitamin product they wanted to, so long as they did not use our trade-mark, and I told him that if they wanted to, we would enter into an agreement whereby they would be free to do that provided they would agree in writing not to attempt any marketing under our trade-mark, and that we were perfectly willing to enter into general releases to that effect.

He said, “No,” he said, “Mr. Hanisch feels personally about this ‘Stuart formula’ trade-mark, and he wants the trade-mark and he wants the assets of the company,” and that he wanted to retire The Vita-Food Corporation from the pharmaceutical field.

(Testimony of Oscar Wiseman.)

There was also some discussion about—he told me that there had been some misrepresentation to him about the nature of the plant of the Vita-Food Corporation.

I asked him what those were, and he said, well, they had been led to believe that it was a big plant and that sort of thing and actually it wasn't. I told him that I had seen the plant, and while it wasn't the largest plant in the world, it was an efficient and adequate plant to produce whatever was required.

He told me yes, they knew that the plant was in South Pasadena and had a pretty good lineup on it. He told me that he understood that the tablets were not made at The Vita-Food Company, and I said I had personally seen vitamin tablets made to this extent, that the vitamin tablets—the main [426] ingredients were compounded and mixed, and I had seen the physical mixing of these ingredients, at the Vita-Food plant, and that from the Vita-Food plant they were sent to another company which sugar-coated them and actually put them in bottles.

He said he knew the name of that company and he understood that they did the complete operation.

I told him that, from my personal observation, that wasn't true. I had seen the tablets actually made except for the sugar-coating and the actual bottling.

He also told me—and he was quite flattering in part—he told me that both he and Mr. Hanisch thought I was a swell fellow and that I had handled the cases involving the infringement of the trade-

(Testimony of Oscar Wiseman.)

mark that arose in the Sontag and Thrifty drug stores, very well, and he liked the way I had handled decisively some spoilage that occurred, and that he liked doing business with me and that they were very happy they didn't have to deal with Mr. Lewis in this matter.

I told him that I wasn't interested in the fight that had gone on before, that I had not participated in, what apparently was a battle over the May 5th contract, that I was there to do a job, and if he had any serious offers to make, that we would give them consideration.

The Court: Do you recall anything else that Mr. Dunlap said to you? [427]

The Witness: He told me that he had a notice of rescission ready to go and that they were preparing to file a lawsuit.

I told him that we did not want litigation on it, that if we were forced to, we would take legal steps, too. I told him that in my opinion a rescission action on their part would be ill-founded because to ask for equity relief they would have to show that they had done equity, in that they had failed to meet their quotas and, as far as I could see, they had a lot of complaints and some sort of a fictitious claim on the trade-mark, but that actually they were in a position of having defaulted on their contract and that they did not have any right to equitable or other relief; that we had conditionally or partially canceled the contract, so that if there was still a basis for working things out, we would. I did not



(Testimony of Oscar Wiseman.)

want to take any harsher measures at that time we had to.

Mr. Maiden: May I ask the witness a question?

The Court: Can you think of anything else that he said or you said?

The Witness: Yes. I told him that we were only interested in dollars and cents figures on a settlement.

He said that they did not want the relationship of manufacturer and distributor. They did want the trade-mark, but a lawsuit would hurt the trade-mark. I think his words [428] were that "the lawsuit will kill the trade-mark."

The Court: Was this the first meeting you had?

The Witness: This was the first meeting, yes, your Honor.

The Court: How did you get to the point of talking on any settlement at the time of the first meeting?

The Witness: Well, we had discussed the fact and it was acknowledged that we had served a notice of cancellation upon them and they had served a notice of rescission upon us, and Mr. Dunlap asked me to meet with him for the purpose of seeing if there wasn't some way of settling the differences between the two companies.

The Court: You mean settling in that sense, that is, working something out, is it?

The Witness: Yes, it is, your Honor.

The Court: Can you think of anything else?

The Witness: Yes. He said that they might

(Testimony of Oscar Wiseman.)

want to work out something on a royalty basis and on a liberal figure, and it would have to be determined within 48 hours; that either they would have things worked out to their satisfaction within 48 hours or they were going to file a lawsuit.

I told him I wasn't interested in any time limit, that we would consider any reasonable suggestion he had to make, and that I did not consider his suggestion up to that time reasonable, and worth submitting to my clients. [429]

The Court: Was anything else said?

The Witness: Yes. He told me earlier in the evening that Mr. Lauerhass and somebody else, whose name I don't recall, were underpaid in the office, and that Mr. Hanisch and their office felt that they were all working for The Vita-Food Corporation, and that they wanted to put a stop to that.

Also, Mr. Dunlap told me that Mr. Hanisch had told him that "he was going nuts"—that is a quotation—that before he had gone into this he had thought of going to the Harvard Law School. There were many things discussed. I have some kind of notes on some of them, and I am trying to recall what was said.

Mr. Mackay: May I make one inquiry? Were those notes made at the time of the conference?

The Witness: Yes, I made these in front of Mr. Dunlap.

Mr. Mackay: Are those the original notes you made?



(Testimony of Oscar Wiseman.)

The Witness: Those are my original notes in my own handwriting.

Mr. Mackay: All right.

The Court: Did you make any proposals to Mr. Dunlap?

The Witness: Yes, I made the one proposal that we would execute mutual releases and they would disclaim any so-called claims they might have to our trade-mark, and manufacture or distribute any products they wanted to, and that we [430] would go ahead and do our own marketing under "The Stuart Formula." They could go ahead and sell our products if they wanted to, on a non-exclusive basis, unless we made another exclusive arrangement with some other firm later on. We would, of course, permit them to exhaust their stocks on hand.

Do you want me to go on, your Honor? There are a couple of other things.

The Court: Yes, I want you to finish what was discussed at this meeting. You can go right on and talk as long as you want.

The Witness: Well, I don't want to talk very long at all, your Honor, actually, but there was some discussion—Mr. Dunlap said that he felt some misrepresentations had been made by their detail men as to the contents of the product.

I told him that that was nonsense, there was nothing wrong with that, that I had personally handled the revision of the label before the—I think it was the Food and Drug Board, and had adjusted the label to meet the conditions required by that board,

(Testimony of Oscar Wiseman.)

and, as indicated, I believe it was the report of the Federal Security Board which had set up some minimum standards on vitamins, and I told him that was another matter that we were not prepared to discuss, that that had been discussed. When the label had been determined I had met with Mr. Lauerhass and Mr. Swanfelt, of Lord & Thomas, who had prepared drafts of the labels, and we had the opinion [431] of the Food and Drug Board, and I had the opinion of Dr. Borsook and also consultation with Mr. Lewis, and we were extremely careful to see that the label was accurate, and I believe it was.

Mr. Dunlap asked me whether or not Mr. Lewis was the only stockholder, whether or not The Vita-Food Corporation was the alter ego of The Vita-Food Corporation.

The Court: The alter ego of whom?

The Witness: Lewis and the Vita-Food—he in effect wanted to know if they were one and the same, and I told him no, that there were other stockholders, and I also told him the principal reason why I was handling the negotiations was partly because it looked like litigation was imminent and I was the lawyer for the company, and also the other stockholders of The Vita-Food Corporation felt that the matter had become more or less a personal issue between Mr. Hanisch and Mr. Lewis, and that it would be better if we broke that up and tried to deal on an impersonal basis and tried to work out the various problems which existed between the companies.

(Testimony of Oscar Wiseman.)

Mr. Maiden: May I have my witness, if the Court please?

The Court: I want the witness to finish his answer to the question. When he has come to the end, he can say, "That is all."

The Witness: I believe Mr. Dunlap also [432] told me that The Stuart Company could, if they had the trade-mark, get supplies and materials from other manufacturers at substantially lower prices than the rate then being charged by Vita-Food to Stuart.

I told him that that was possibly so but that I did not believe they were in any position to complain about the price unless they were able to meet their quotas, that, at least as far as my official capacity with the company was concerned, I wanted to see the prices reduced, too, but unless they stabilized the market and we knew how much we could sell on a quantity basis, there was not much point in changing the price structure.

I think we also discussed during that meeting the fact that we had drawn a Dun & Bradstreet report on them and they had drawn several Dun & Bradstreet reports on our company, so that we both had a pretty good idea of the financial position of each other's company.

There was also some discussion—Mr. Dunlap asked me what other trade-mark cases I had handled, and I mentioned a few. I don't think that is important, your Honor. I will not go into it further,

(Testimony of Oscar Wiseman.)

your Honor, but we did discuss—he asked me if I had had some experience, and I mentioned several trade-mark cases that I had handled prior to that time.

That is substantially it, your Honor. I can't recite every word or all of it. Maybe something else will [433] come to me, but that is the substance of it.

Q. (By Mr. Maiden): Mr. Wiseman, you stated in answer to the Court's question that at this first meeting you stated that The Vita-Food Corporation would be willing to execute mutual releases?

A. Yes, I so testified.

Q. Exonerating both parties from the——

The Court: Are you asking him a leading question again?

Mr. Maiden: No, I don't think so, your Honor. I am trying not to.

The Court: Very well. You asked him if they wanted to execute mutual releases, and then you are telling him what those mutual releases would contain.

Mr. Maiden: I beg your pardon. I probably was getting into the realm of leading the witness.

Q. (By Mr. Maiden): Mr. Wiseman, tell the Court what consideration was to pass for the mutual agreements, if any.

The Court: Well, was that discussed in this meeting?

The Witness: Yes, I told him that——

(Testimony of Oscar Wiseman.)

The Court: You didn't finish telling the Court everything that had been discussed at that meeting, did you?

The Witness: I believe I told this to your [434] Honor.

The Court: No, you didn't mention any money at all.

The Witness: There wasn't any money mentioned in this, that I think counsel's question is directed to.

The Court: Well, "consideration" usually means money.

Mr. Maiden: Well, your Honor, I asked him what consideration was to pass in the exchange of the mutual releases, and I wanted him——

The Court: Was that discussed?

The Witness: Yes, at least I told him that we were prepared to let them sell whatever they had on hand, and that if all he wanted was termination of the contract, that was perfectly all right with us, we would execute mutual releases provided they disclaimed what I considered fictitious claims to the trade-mark. That is all we wanted, was a disclaimer in view of the fact that he had raised the point, and I so told him.

He told me that Mr. Hanisch felt that he had gotten in too deep and had lost too much money, and that he couldn't recoup unless he had the trade-mark.

Q. (By Mr. Maiden): Now, Mr. Wiseman,



(Testimony of Oscar Wiseman.)

when was the date of the next conference you had with Mr. Dunlap?

A. Well, it was a couple of days later, and it was at the Town House in Los Angeles on Wilshire Boulevard. [435]

Q. At whose request? A. Mr. Dunlap's.

Q. You say it was held where?

A. At the Town House.

Q. That is a hotel in Los Angeles?

A. Yes, it is on Wilshire Boulevard, what I think is opposite Lafayette Park.

Q. Who was present at that meeting?

A. Mr. Dunlap and myself.

Q. Now, will you tell the Court, in the same detail that you did in answer to the Court's question with respect to the first conference, everything that was said that you can remember between you and Mr. Dunlap?

A. Well, there was some repetition of the previous meeting's discussion.

Mr. Dunlap said they were prepared, I think, to pay \$50,000.00 down to take The Vita-Food Corporation and Mr. Lewis out of the pharmaceutical field, and they would pay a royalty to Vita-Food for five years. Then, he added a little later, that they would also hire Mr. Lewis on a consulting basis and they would escrow the trade-mark until all the payments were made.

I told him that that payment was inadequate—that price. He asked me what we wanted, and I told him that we would sell the trade-mark—I believe



(Testimony of Oscar Wiseman.)

the price I mentioned was [436] \$300,000.00 or \$350,000.00, that we were not interested in selling the plant facilities of the company and we were not interested in going out of the pharmaceutical field, and that I did not consider it fair to discuss Mr. Lewis as a person on a consulting basis with them; that the Vita-Food Corporation was not Mr. Lewis' private property and I couldn't understand why he would make that type of suggestion in view of all the difficulties they had with Mr. Lewis. I told him it just didn't make sense, "that after all the trouble you say you have had, now you want to make some disposition and you want him to be your consultant for five years."

I said, "In any event we are not interested in that, because we want a settlement between The Vita-Food Company, if any, and a sale of the trade-mark between the companies, and the individual officers are not to be concerned."

Mr. Mackay: Are you reading from notes?

The Witness: I have some notes also on that meeting. I am not reading from notes, but I have some notes.

Q. (By Mr. Maiden): Are they notes taken during the meeting or shortly after the meeting?

A. These were taken—I wrote them out in Mr. Dunlap's presence, and some he practically dictated to me, his terms of offer.

Q. Go ahead, Mr. Wiseman, and do it in [437] detail.

(Testimony of Oscar Wiseman.)

A. He told me that they could get the liquid or the tablets for 48 cents a bottle instead of, I believe, the 73 or 89 cents a bottle that they were then paying us. He suggested that there be a profit limitation of both companies to 20 per cent until the royalty or that sort of thing was made out.

I told him that his offer was not acceptable.

Then he told me this: He said, "We will take an inventory of your plant and pay you dollar for dollar for the value of your plant and all merchandise. We will pay you an amount necessary to cover your attorneys' fees in handling the transactions, and 15 per cent of their cost of merchandise for five years."

I also told him that that offer was not acceptable.

He reiterated a lot of the pain and suffering that Mr. Hanisch had had until that time, and told me that they were anxious and willing to make some sort of an arrangement.

Q. Arrangement about what, Mr. Wiseman?

A. To dispose of all disputes between the companies on some basis or another. I just can't remember all of that, your Honor, at this moment. There were a lot of things discussed. That discussion went from 3:00 o'clock in the afternoon until 6:30 that evening.

Q. Mr. Wiseman, was anything said at this second meeting with respect to execution of the mutual consent you spoke [438] about as having occurred at the first meeting?

Mr. Mackay: I object to that as a leading question.

(Testimony of Oscar Wiseman.)

The Court: You can answer yes or no.

The Witness: Yes.

Q. (By Mr. Maiden): What was it, Mr. Wiseman?

A. I believe I repeated my previous offer that we could call it quits and they could disclaim any interest they had in the trade-mark, and they could go about their business and get some other trade-mark or do whatever they liked.

Mr. Dunlap wasn't interested in discussing that phase of it at all.

Q. Now, that second meeting was on November 20th. Now, when did the next meeting occur, Mr. Wiseman?

A. The following Sunday, I believe, Sunday, November 22, 1942.

Q. Now, tell the Court in similar detail what occurred at that conference and who was present at the conference.

A. Well, that conference started at 3:00 o'clock in the afternoon and wound up four hours later at 7:00 p.m.

Mr. Dunlap, myself, and Mr. Hanisch were present. Mr. Hanisch was very friendly to me. He was very flattering about how nicely I had disposed of a number of matters before, and that how glad he was that I was handling the matter at this stage instead of Mr. Lewis, whom he detested, and [439] so forth, in a lot of language. He raised the offer to \$100,000.00.

Q. Offer for what, Mr. Wiseman?

(Testimony of Oscar Wiseman.)

A. For the trade-mark, and wanted us to take that on a payment basis.

I told him that the only thing we were interested in, if at all, was a cash deal for the sale of the trade-mark, that we had had a financial statement on him, and as far as we were concerned, he and The Stuart Company were one and the same, that it was a mere shadow of a company, that unless he agreed to carry out any settlement or any agreement that we had, it would be worthless to us, that he had the financial backing to pay for the price of anything that was agreed upon.

Q. What were you asking at that conference for the trade-mark?

A. I believe the price that I asked was \$300,000.00.

Q. Is there anything else that you can recall that took place at that conference, Mr. Wiseman, that would shed some light on this problem the Court has to decide?

A. Well, I don't believe that we discussed at all their claims to the trade-mark. I don't believe that was discussed at all. I think that we discussed the sales and the quotas and the amount they purchased month by month.

Q. What information, you mean in the payment?

A. Yes, the steps leading up to the cancellation.

The Court: You did discuss cancellation of contract? [440]

The Witness: Oh, yes, we did that.

(Testimony of Oscar Wiseman.)

Q. (By Mr. Maiden): What was the nature of that discussion?

A. The nature of that discussion was that Mr. Hanisch told me that he could buy vitamins cheaper than he could buy them from Vita-Food, and that he wanted to market under the name "The Stuart Formula," and buy from other people, that he could make a great deal more money that way than he would with a Vita-Food contract. He detested Mr. Lewis, and wanted to be free to market vitamins under the name "The Stuart Formula," and I told him that I had——

The Court: He said he wanted what?

The Witness: He wanted to be free from any requirement to purchase vitamins from The Vita-Food Corporation, that he wanted to market vitamins under the name "The Stuart Formula," and he did not want to have anything more to do with Mr. Lewis.

The Court: That was what he told you?

The Witness: Yes, and I told him that he could buy the trade-mark if he paid enough for it. We were willing to sell it. I also told him that he could market vitamins under any other name he wanted to, without paying us anything, provided he disclaimed this so-called claim that they might have to the ownership. [441]

Q. (By Mr. Maiden): Ownership of what?

A. Of the trade-mark.

The Court: That was a 10-year contract, wasn't it?



(Testimony of Oscar Wiseman.)

The Witness: I believe it was.

The Court: So, if the Vita-Food Company could get something, if it could hold the other party to the contract to sell its products, wouldn't it be making sales of products through the other party to the contract?

The Witness: That is right, if The Stuart Company sold its products, they would——

The Court: No, that wasn't my question. I said, if the other party continued selling goods, why, Vita-Food would be making some money over a 10-year period, wouldn't it? You had them on a 10-year contract, didn't you?

The Witness: Yes. It would depend upon the circumstances.

The Court: Your notice of rescission was—what was it, what was that notice?

The Witness: We terminated their exclusive agency.

The Court: You told them that they couldn't have the exclusive rights to sell any more?

The Witness: That is right.

The Court: What did you understand, then, that they would do under that contract?

The Witness: Well, I understood this—— [442]

The Court: The terms of the contract, after you had given the notice of rescission—what was your understanding of what was left for them to do under the contract?

The Witness: Well, that was answered by their acknowledgment and their own rescission.



(Testimony of Oscar Wiseman.)

The Court: No, I didn't ask you that. I asked you what was understood?

The Witness: I understood from the notice of cancellation and the acknowledgment and the rescission that we got immediately thereafter, that the contract was terminated for all purposes.

The Court: That was a cross-notice. I am talking about your notice. You sent them a notice of rescission. Now, what was your understanding of their status under the contract after you sent their notice and before they gave you any notice?

The Witness: I understood simply that their exclusive contract was terminated, that the contract in other respects stood.

The Court: For the balance of the 10-year contract?

The Witness: Unless we acted further and gave them further notice.

The Court: Up to that time there hadn't been any other defaults. Is it understood, then, they would be bound to sell under the terms of that contract for the remainder of [443] 10 years, but without the exclusive privilege, is that right?

The Witness: That is not right, your Honor.

The Court: I am trying to find out from you what you understood their status would be under that contract after you gave them the notice of rescission.

The Witness: Well, I don't know whether it was in the first meeting or the second meeting that Mr. Dunlap and I discussed that, but he raised that very

(Testimony of Oscar Wiseman.)

point. I told him then, and it is my position now, that upon the termination of the exclusive agency we could not restrict their other sales, because that type of restriction would violate the anti-trust laws. We made no contention, and I so told him. They were free to do whatever they pleased.

The Court: I am asking you if it was your contention that they would have to continue to sell—would have to continue to buy some of the products offered to them by The Vita-Food Corporation under that contract.

The Witness: No.

The Court: No?

The Witness: No. [444]

The Court: What did that contract mean? It was a 10-year contract, and you examined that contract, I suppose, a good many times before you had that conversation with Mr. Dunlap?

A. Yes, I did, your Honor.

Q. And, under clause 6, they were given the exclusive right to sell Vita-Food products, provided they met their quotas, isn't that right?

A. That is right.

Q. If they didn't meet their quotas, you had the right to give them notice, rescinding that exclusive feature of the contract, didn't you?

A. That is right.

Q. All right. Now, it was a 10-year contract. If they didn't deliver, if they didn't sell the quota they had agreed to, what was your understanding of their only obligation to Vita-Food Corporation, un-

(Testimony of Oscar Wiseman.)

der that contract, for the balance of the 10-year term thereof, talking about their duty to Vita-Food Corporation and to no one else?

A. I don't think they had any duty, other than the obligation any jobber would have had if they had merchandise on hand.

Q. That is your position, then, that they were not bound under that contract to continue to sell some products for Vita-Food Corporation? [445]

A. That is right. I might explain that, if your Honor wants an explanation.

Q. Did you state that position to Mr. Dunlap?

A. Yes, I did. I told him that we had used an intermediary step, because we didn't want to use any harsher methods than absolutely necessary, that the contract called, for example, product liability insurance. We continued to carry that. The contract fixed certain prices, how the orders were to be placed, and other things. We felt that pattern could be continued if they wanted to go on a non-exclusive basis. We did not want to restrict them as to other operations they might have. They could sell anything they wanted to, provided they didn't use our labels or our trade-mark.

Q. They could go on selling on a non-exclusive basis under that contract for the balance of the 10-year period, is that right?

A. That is right, if they wanted to.

Q. There wouldn't be any quota basis, but would they be obligated to buy some products from Vita-Food?

(Testimony of Oscar Wiseman.)

A. No, they weren't obligated to buy anything from us, under the contract, except if they didn't maintain our quota, they would lose their exclusive agency. We could terminate it on that ground, or cancel it, as I recall. It was our intention to cancel it entirely, except, as a preliminary step, we took a milder position. That is all there was to it. [446]

The Court: Do you think he has gone over everything that happened at that November 22nd meeting?

Mr. Maiden: I was just going to ask.

The Witness: I don't believe I covered everything, but I have covered everything I recall at the moment. If you ask me a specific question about something there, I might recall something further. It was a four-hour conversation and I can't retell it all in 15 minutes.

Mr. Maiden: Well, unfortunately, I wasn't present at that conference and I have no knowledge of what——

The Witness: There was one other thing we did discuss. We discussed the price for a sale and we discussed the manner of payment, and up to and including that meeting, at all times, I insisted on a cash deal, and we clarified the position to Mr. Hanisch so he understood he wasn't going to buy any plant, and he told me he heard the plant didn't amount to much. He reiterated what Mr. Dunlap told me. They knew it was in South Pasadena and knew pretty much about it. I told him the plant

(Testimony of Oscar Wiseman.)

wasn't for sale. The only thing we were concerned about selling was the trade-mark.

The Court: What kind of a plant did they have?

The Witness: Do you want me to physically describe it?

The Court: Did you ever see it?

The Witness: I was in it a number of [447] times.

The Court: How many employees did they have?

The Witness: Oh, I think there were about 10 or 15. It was a building, a commercial building, in South Pasadena. I would say the floor area was about, possibly, 3,500 to 4,000 square feet.

The Court: What was the address?

The Witness: I don't recall the address, but it was on Fremont Street and there were a lot of electric motors and vats with agitators and measuring devices, a lot of equipment for compounding tablets and liquids, a lot of bottles and—it was stocked to the ceiling. A lot of labels. And people were working, running the machinery, and people were working, bottling liquids and tablets, at various times. It was a nice, clean, sanitary plant; rather limited capacity, but they could pop out an awful lot of bottles in 24 hours. I observed a number of times, in view of some of these claims made; I personally went down and stayed morning and evening to see just how much they did, and they produced quite a few things, when they wanted to.

As a matter of fact, one of the complaints we had was that The Stuart Company would give us an



(Testimony of Oscar Wiseman.)

order, we would produce that in a few days, and then lay everybody off for a while and then put them back on. That ran our expenses up quite high. If we had an even flow, if we could meet the quotas, we could have kept the people working [448] continuously. It ran our costs up quite a bit. Things had to be started all over again; some of these vats, the liquid solution, vitamin solution, was prepared—I would say there were half a dozen of them that had perhaps a hundred to two hundred gallons capacity, and they had to be mixed, I believe, under temperature control. It took quite a while to get those things started, whereas, if it could have been kept in continuous operation, it would have been a lot less expensive for us to operate the plant.

While I was vice-president of the company, we would stop and start many times, and the plant was shut down. I had complaints from the plant superintendent many times, telling me it was extremely difficult for him to keep employees. We had to break in new employees from time to time, because we did not have an even flow of production that we could plan on.

Q. (By Mr. Maiden): Now, is there anything else you wish to state with respect to that November 22nd conference?

A. Nothing, except that I concluded that we were not going to reach a settlement and I concluded that we would proceed—we did discuss the notice of rescission, their acknowledgment, but I concluded when the meeting broke up, we were going to have



(Testimony of Oscar Wiseman.)

litigation and we might as well get our lawsuit on file first. [449]

Q. Litigation with respect to what?

A. The injunction suit which I filed, which I think is your Exhibit 15 or 16.

Q. What did you understand the subject-matter of the litigation would be?

A. I don't know what—Mr. Dunlap indicated he might bring some suit for rescission. That is all I knew about theirs. As far as we were concerned, I had recommended that the lawsuit, exactly of the type that was filed, be filed, and that was to prevent them selling anything under our label and under our trade-mark.

Q. Well, what caused you to file the injunction suit; what prompted that injunction suit? Did you have any reason to believe it was necessary to file that suit?

A. Yes. Mr. Dunlap told me, and Mr. Hanisch backed him up in all the meetings we had up to and including that one, that they felt if they didn't make a satisfactory arrangement, they were going to go on the basis they owned the trade-mark, that they could market anything they pleased under that; that they would buy it from whatever supplier they could find, and it was my intention in preparing and filing that lawsuit and in getting out the injunction, to stop them from marketing anything under that trade-mark and that label, other than the brands manufactured by The Vita-Food Corporation.

(Testimony of Oscar Wiseman.)

Q. You had no other intention in that injunction suit? [450]           A. I did not.

Q. Now, Mr. Wiseman, did you have any further conferences with either Mr. Dunlap or Mr. Hanisch after November 22nd, up until the conference of November 28th?

A. No, except that the conferences on November 28th were in several sections. It started around 6:00 in the evening at the hotel and was adjourned and reconvened in Mr. Dunlap's office at 8:30 that evening.

Q. Now, this is a very important occasion in the lawsuit and the Court will be anxious to know in detail what discussions were had on that occasion, which culminated in this agreement which is in evidence, and what you understood the agreement to represent.

The Court: Now, the agreement of settlement is dated November 28, 1942. They didn't work out that agreement at the meeting on November 22nd, as I understand.

Mr. Maiden: He was talking about the conference beginning on November 27th.

The Court: 27th or 22nd?

Mr. Maiden: November 27th, which started, I believe, he said, about 6:30 in the evening.

The Court: Then, I have the wrong dates. The dates are November 18th, November 20th, and November 27th, is that right?

Mr. Maiden: No. There was a conference on November [451] 22nd. I am getting up to the con-

(Testimony of Oscar Wiseman.)

ference, if the Court please, which drafted this agreement which is in evidence.

The Court: Now we are talking about November 27th, is that right?

Mr. Maiden: November 27th, November 28th.

Q. (By Mr. Maiden): Will you tell when the conference started and when it ended; that is, the conference at which this agreement was drawn up and executed?

A. Well, it started at 6:30 in the evening.

Q. What date?

A. At the hotel, on Friday, November 27, 1942. Present were Mr. Dunlap and myself.

Q. Now, when did that conference end?

A. The conference ended about 8:30, and then we immediately started again a few miles away, at Mr. Dunlap's office, I believe, in the First Trust Building in Pasadena, at 8:30, and we went on from there until 6:00 in the morning, November 28, 1942.

Q. Now, Mr. Wiseman, tell the Court what took place at that conference; the discussions that were held and what your understanding was of the substance of the agreement entered into by the parties on that occasion.

A. Well, Mr. Dunlap had called me up and wanted to meet with me. Finally I talked to him on the phone. He told [452] me that we had beaten him to the draw and filed our lawsuit first, and that looked like I had sued everybody and served everybody in Pasadena. I believe that is just about what

(Testimony of Oscar Wiseman.)

he told me. In any event, he would like to talk to me about it and could he meet me at the hotel.

Q. Did you solicit that conference?

A. I did not. Mr. Dunlap called me on the phone and arranged it. Anyway, when I met with Mr. Dunlap, I believe—I don't recall it—but I think we had dinner together. I am not sure, but at least we met at the hotel and discussed this thing.

Q. Pardon me.

Mr. Maiden: If your Honor please, it is quite obvious we can't finish with this witness today, and since Mr. Mackay and I have an agreement, if it is agreeable with the Court, that we will continue the case—I mean we will have a setting of the case on Saturday, tomorrow—I would like to make a motion at this time we adjourn until 9:30 or 10:00 o'clock, or whatever suits your Honor's convenience.

The Court: Is that agreeable?

Mr. Mackay: Quite right.

The Court: What time do you want to start in the morning?

Mr. Mackay: I would suggest as early as convenient to your Honor. [453]

The Court: We will recess until 9:30 tomorrow morning.

(Whereupon, at 5:30 o'clock p.m., an adjournment was taken until 9:30 o'clock a.m. Saturday, January 31, 1948.) [454]

January 31, 1948

The Court: Proceed.

Whereupon,

OSCAR WISEMAN

called as a witness for and on behalf of the Respondent, having been previously duly sworn, resumed the stand and testified further as follows:

Direct Examination  
(Continued)

By Mr. Maiden:

Q. Mr. Wiseman, did I understand on your examination yesterday and the beginning of the conference held on the nights of November 27th and November 28th, 1942, commenced at some hotel?

A. Yes.

Q. What hotel was that?

A. The Vista del Royale in Pasadena.

Q. Do you have any idea why the conference was held there?

A. Well, I was living temporarily in a little apartment hotel and Mr. Dunlap asked to see me, I believe, the day before, which was Thanksgiving or something, or it was Thanksgiving; I don't recall exactly. But he finally asked me to meet him at my hotel.



(Testimony of Oscar Wiseman.)

Q. How did he get in contact with you?

A. Well, he phoned me. I don't recall whether he [456] phoned me at my apartment or at my office, but he phoned me, I think, the 24th or the 25th, when we filed our suit.

He called me about four or five times during that day and I had stopped my calls. I knew he called, and I did not want to talk to him, because I was busy getting the lawsuit on file.

He finally got hold of me, I think, on the 27th, and asked me if I would meet with him. I told him that I didn't see much point in it, that we had discussed the case rather thoroughly and that we had filed our action and that it seemed to me that we were in a lawsuit and that was it.

He says, "Well," he says, "I want to talk to you." He said, "I have talked it over further with Mr. Hanisch and I think maybe we can make you an offer that would be worth while."

So he met me at the hotel and we discussed the case further at the hotel.

Q. How long were you at the hotel? Did you stay there all night?

A. That hotel? No. That night Mr. Dunlap and I talked until about 8:30 and then we went over to Mr. Dunlap's office about 8:30 the evening of November 27th and carried on the discussion there.

Mr. Hanisch joined us sometime later in the evening and we stayed on through until 6:00 o'clock of

(Testimony of Oscar Wiseman.)

the following [457] morning, until we finally disposed of the matter.

Q. In other words, you all stayed together until the agreement had been finally completed?

A. Not all of us. Mr. Dunlap and I were together substantially all the time from 6:00 o'clock p.m. of the 27th of November until 6:00 a.m. of the 28th.

Q. Now, will you explain to the Court the reason for the manner in which \$122,700.00 was to be paid Vita-Food?

A. Well, that was simply part of the total consideration for the sale of the trade-mark.

Q. Do you have any explanation as to why it was to be paid in the manner provided in the agreement?

A. Yes. There was extremely—they debated practically all night how that was to be paid and finally the terms agreed upon were done so partially as a convenience, and I presume primarily as a convenience to The Stuart Company and Mr. Hanisch.

He said he wanted the money paid through The Stuart Company rather than by his direct check, insofar as he was able to, because he had made considerable loans to the company in the past and for his tax picture and so on he was a lot better off having the payments made by The Stuart Company.

Q. Was this entire consideration of \$197,700.00 to be paid in any or all events? [458]

(Testimony of Oscar Wiseman.)

Mr. Mackay: I object to that, your Honor. It calls for a conclusion.

The Court: Objection sustained.

Q. (By Mr. Maiden): Now, Mr. Wiseman, will you tell the Court what you understood to be the consideration passing from Vita-Food Corporation,——

Mr. Mackay: Your Honor, please,——

Q. (By Mr. Maiden): ——to The Stuart Company?

Mr. Mackay: Just a moment. No.

The Witness: We were selling a trade-mark. That was the consideration.

Mr. Mackay: I move that be stricken, your Honor, as a conclusion of the witness.

Mr. Maiden: If the Court please,——

Mr. Mackay: It is a pure conclusion.

Mr. Maiden: If the Court please, Mr. Dunlap was given great liberty with respect to explaining what his understanding of the parties was, with respect to what the Stuart Company was accomplishing under that agreement.

Certainly, in all fairness to Respondent, I should be permitted to have Mr. Wiseman tell the Court what his understanding was of the true consideration passing from Vita-Food Corporation, as he understood it, on that occasion [459] and under this agreement.

Mr. Mackay: It goes farther. I believe, your Honor, it goes farther than a mere question of intent, as Mr. Dunlap's testimony revealed.

(Testimony of Oscar Wiseman.)

Would you please read that last answer?

The Court: Read the question and answer.

(The record was read.)

Mr. Mackay: If your Honor please, it seems to me that is the ultimate question that the Court has to determine. It seems to me that raises purely a legal question. It is going far afield, I think, from the intent of the parties which I grant they have a right to go into. That question and answer, I think, are improper.

Mr. Maiden: If the Court please, I am very certain that Mr. Dunlap was permitted to testify that it was his understanding and that it was his intention that the consideration paid under the agreement was for the cancellation of the contract. That is the identical situation we have here.

The Court: If the answer represents a conclusion on the part of the witness, then the answer should be stricken. If the answer represents the understanding of the witness, then the answer is not objectionable.

The Court will understand the answer to represent the witness' interpretation, and that is still a matter for the Court to determine, whose interpretation is the best and [460] most reliable, so the objection is overruled.

Q. (By Mr. Maiden): Now, Mr. Wiseman, were the parties able to readily agree upon the terms of the agreement?

A. No. In the meeting I had with Mr. Dunlap first at the hotel and later the meeting at his office,

(Testimony of Oscar Wiseman.)

in his office, we argued strenuously practically all night until it was finally determined. We had considerable discussion at the hotel first, and we had a lot of discussion at Mr. Dunlap's office afterwards.

Q. Were there any rough drafts prepared that night?

A. Yes. Early in the morning when we were at a tentative agreement, Mr. Dunlap started typing and we had—well, he made—he started to make one draft and after the first couple of pages I had rejected it. It wasn't a very good typing job, anyway. So he started all over again and then the—I will call that the second draft—was rejected and again revised, and then there was the final draft which we accepted.

Q. Were the differences between you with respect to the drafts ones that had to do with the terminology? A. Yes; and the terms.

Q. And the terms? A. Yes.

Mr. Mackay: What is the difference [461] between "terminology" and "terms"? I withdraw that. That is a stupid question.

The Court: It is like my question yesterday about interstate and intrastate commerce.

Mr. Mackay: Mine is much worse, I am sure.

Q. (By Mr. Maiden): Mr. Wiseman, I notice this agreement of settlement contains, among other things, a provision whereby Vita-Food quitclaims without warranty this trade-mark. Can you explain to the Court the reason why you used a quitclaim conveyance? A. Yes.



(Testimony of Oscar Wiseman.)

Q. Would you do so, please?

A. We argued that point for at least an hour. Mr. Hanisch and Mr. Dunlap wanted a grant or terms of grant or general warranty used with regard to the trade-mark, and I told them we were perfectly willing to convey it, but it would only be on a quitclaim basis, because of their asserted claims that they might have had some title to it and there might have been some defect in our title.

I told them that there had been enough talk about fraud and misrepresentation, and that if an agreement was to be signed and I was to sign it there wouldn't be any argument later on about any misrepresentation about anything.

We finally compromised the point by inserting one warranty, and that is that the Vita-Food Corporation [462] had not theretofore made any transfer of its interest or of its interests in the trade-mark.

Q. Mr. Wiseman, do you have with you the copies of any of the drafts that were prepared there that night?

A. Yes, I have both of the drafts with me.

Q. These are two different drafts, is that right?

A. That is right. This is the first one which was only partially done (indicating).

Q. You don't have a better copy?

A. That was the only copy. As a matter of fact, I think that is in duplicate; so far as I know it is.

Mr. Maiden: Mr. Mackay, do you have a copy?

Mr. Mackay: I have never seen it.

(Testimony of Oscar Wiseman.)

Mr. Maiden: The third and fourth pages are not legible.

Mr. Mackay: I agree with you, it is not legible.

Mr. Maiden: I wouldn't want to impose on the Court with it. I don't have a more legible copy than this (indicating).

Mr. Mackay: I haven't seen one.

Q. (By Mr. Maiden): You do identify this as being the true original—this appears to be—one of the drafts made at that conference?

A. That was the second draft.

Q. That was the second draft? [463]

A. Yes.

Mr. Maiden: Your Honor, please, I would like to have this marked for identification at this time as Respondent's next exhibit number, whatever it is.

The Clerk: T.

(The document above referred to was marked Respondent's Exhibit T for identification.)

Mr. Maiden: If the Court please, the copy of the first draft is almost illegible and I just would hate to impose upon the Court by putting any such thing in evidence. I want to explain to the Court the reason why I am not, and it is on this account: I would like for the Court to look at these two last pages, for example.

The Court: You can read some of it. These are pinned together, the second page is a copy of the first and the fourth page is a copy of the third.

For the purposes of comparison, if you compare

(Testimony of Oscar Wiseman.)

that with T for identification I don't know whether it adds anything to the story or not. It is possible to read some of that. It is up to you to do what you want to do with that.

Mr. Maiden: Your Honor please, I am so anxious that everything will be right in this case for the Court to work with. I am going to ask that this copy of the—is this the first draft? [464]

The Witness: That is a copy. That is the original sheet and a copy, two pages; that constituted the first draft.

Q. (By Mr. Maiden): Do I understand that the last two pages are just a duplication of the first two pages?

A. No, the second page is a duplicate of the first page and the fourth page is a duplicate of the third page, as the Court indicated.

Mr. Maiden: I am going to ask the Clerk mark this for identification as Respondent's exhibit.

The Clerk: U.

(The document above referred to was marked Respondent's Exhibit U for identification.)

Mr. Maiden: If the Court please, I would like to withdraw these, as identified, and have them offered in evidence.

Mr. Mackay: No objection.

The Court: They will be received in evidence as Exhibits T and U.

(Testimony of Oscar Wiseman.)

(The documents heretofore marked Respondent's Exhibits T and U were received in evidence.)

Q. (By Mr. Maiden): Mr. Wiseman, will you state to the Court whether or not there is such a thing as a common law right in and to a trade-mark? [465]      A. Yes.

Q. Would you explain that a bit, Mr. Wiseman? In order to have a common law title or right to a trade-mark, what is necessary, as you understand it?

Mr. Mackay: If your Honor please, I object to that. I don't think the witness has been qualified as an expert on patent law or trade-mark law.

The Court: Objection sustained.

Q. (By Mr. Maiden): Mr. Wiseman, will you tell the Court just what experience you have had in the field of trade-mark and patent law?

The Court: I think this matter is a matter that will have to be covered in the briefs, Mr. Maiden.

Mr. Maiden: Your Honor, I didn't know. That, of course, can be developed in the brief. But in view of the——

The Court: It is part of your legal argument.

Mr. Maiden: Yes. Well, I won't pursue the matter, if the Court please.

Q. (By Mr. Maiden): Now, Mr. Wiseman, did you have anything to do with the legal work in connection with obtaining the state and federal registration of this trade-mark in the name of Vita-Food Corporation?      A. Yes, I obtained them. [466]

(Testimony of Oscar Wiseman.)

Q. With respect to obtaining the federal registration, did you associate with you any other attorney?

A. No. Mr. Dunlap asked me that question in our meeting at the hotel. Mr. Fulwider, I think, who was associated with me in the injunction suit, is a trade-mark and patent specialist. However, as I told Mr. Dunlap then, Mr. Fulwider had nothing to do with the trade-mark.

Q. In obtaining this federal registration, did you employ any Washington, D. C., attorney, patent or trade-mark attorney?      A. Yes.

Q. Who was it, as you recall?

A. Well, Mr. Bryant, but I would like to explain that answer if I might.

Q. All right, Mr. Wiseman.

A. One of the things or the principal thing that resulted in my retainer by the Vita-Food Corporation was trade-mark questions, and I was specifically employed first to take care of this situation.

There was a 1905 application pending for the name of Stuart formula for about a year, I believe about a year, or for a considerable period. It had been handled through Mr. Bryant, an attorney, trade-mark and patent attorney in Washington, D. C., through Mr. Overton, who was previous counsel for The Vita-Food Corporation. [467]

In checking the case over I decided and recommended to the company that we withdraw the 1905 application and apply under the 1920 Act. I prepared the papers and they were filed and perhaps



(Testimony of Oscar Wiseman.)

the amendment to the case was signed by Mr. Bryant, but I didn't——

Mr. Mackay: If your Honor please, "perhaps" isn't evidence.

Mr. Maiden: I am going to show it.

Q. (By Mr. Maiden): Now, Mr. Wiseman, was an amendment filed with respect to the application pending asking certain additional statements be set forth in the application?

A. Yes, I believe I prepared the amendment to the application and sent it to Mr. Bryant for signature. Mr. Bryant signed it and filed it at my request.

Q. I will ask you to examine this file here and state just what it is, Mr. Wiseman.

A. Well, these are copies of the federal and state applications and amendments to applications by The Vita-Food Corporation regarding the trade-mark of "the Stuart formula."

Q. Does this file contain copy of an amendment?

A. Yes, that contains a copy of an amendment which I prepared.

Q. Where was that amendment filed, what court is it in? [468]

A. Well, it is before the United States Patent Office.

Q. United States Patent Office. You say you prepared that amendment yourself?

A. Yes, I did.

Q. Did you send it to Washington?

(Testimony of Oscar Wiseman.)

A. Yes, I did, to Mr. Bryant, who signed it and filed it.

Q. Did Mr. Bryant return you a signed copy?

A. Yes, he did.

Q. Is this the signed copy Mr. Bryant returned to you (indicating)? A. Yes, it is.

Q. This affidavit is a part of that application, is that right? A. That is correct, yes.

Q. Does this likewise belong to this amended application?

A. Yes. All the papers are in connection.

Mr. Mackay: Counsel, if you will let me have them and take a look at them, I think there will probably be no objection. I don't want to put you to a lot of unnecessary proof.

Mr. Maiden: I might explain to the Court why I am proving the matter of the amendment to the application. The certificate of registration which is now in evidence [469] has attached to it a statement showing that the application is under the Act of March, 1920. The date of the application is May 15, 1941. That is the date set forth in the registration.

Q. (By Mr. Maiden): Now, Mr. Wiseman, was that the date of the original application?

A. Could I see it a moment, please?

Q. 15th day of May, 1941. Was that under the 1905 Act?

Mr. Mackay: Well, it is shown in the record. I will stipulate that was the date there. It is shown right on the record.

Mr. Maiden: If the Court please, I have in mind

(Testimony of Oscar Wiseman.)

that maybe some basis for the assertion of The Stuart Company that Vita-Food did not have a good and valid title to this trade-mark is based upon the statement which I have just referred to, which is as follows: "The trade-mark has been continuously used and applied to said goods in applicant's business since April 5, 1941."

So far so good. But then follows one intervening sentence with this statement: "That the trade-mark has been in bona fide use for not less than one year in interstate commerce by the applicant."

Now, obviously, if it had been in use only [470] since April 5, 1941, and the date of the application was the 15th day of May, 1941, the statement that it had been in bona fide use for not less than one year would, without some explanation, seem to be a misrepresentation. I want to show by this file that the application was amended to bring it under the 1920 Act, and that the purpose of the amendment was to add in that statement I read the one sentence at the end of the statement, "That the trade-mark had been in bona fide use for not less than one year in interstate commerce by the applicant."

Mr. Mackay: Just a moment. As long as I understand what counsel said as merely a characterization, I have no objection to it.

Mr. Maiden: Of course, what I said is not evidence.

Mr. Mackay: Well, I hope not.

Q. (By Mr. Maiden): Do you know when this amendment was filed?

(Testimony of Oscar Wiseman.)

A. It was filed in July of 1942.

Q. Do you have a specific date in July it was filed? A. Yes, July 29, 1942.

Q. Will you state to the Court the purpose of the amendment?

Mr. Mackay: I object to that, if your Honor please. It is irrelevant and immaterial. The documents speak for themselves. It isn't a question of intent here as between [471] the parties; that is entirely apart from what we are discussing.

Mr. Maiden: I didn't want to clutter up the record.

The Court: I think, Mr. Mackay, since counsel for the Respondent is going into this and going to argue about it, the record had better be clear as to what the understanding was of the Vita-Food Company, who filed this amendment. I think we had better get this out of the way, because I really don't know just exactly what you are getting at at the present time or why you are getting at it. Go right through with it. The objection is overruled. Let's get through this particular phase of this.

Mr. Maiden: I believe I can save the Court a great deal of time.

The Court: Read the last question and answer.

(The record was read.)

The Court: Will you state the reason then?

The Witness: The purpose of the amendment was that I had rendered an opinion that the application under the 1905 Act was not maintainable, and that in view of several infringement cases we

(Testimony of Oscar Wiseman.)

had had we wanted to have the trade-mark registered so that upon any recurrence we would have prima facie evidence, at least, of our title against any company or companies who sought to infringe upon our trade-mark. And that is why, as an interim measure, I filed an application for [472] the California trade-mark. We wanted to have our registrations as quickly as possible because of the Rice and Boyle incident, and others that were rumored. It just put us in a much better position if the——

The Court: What was the Rice incident? How do you spell that?

The Witness: R-i-c-e. They simulated and put out our product, I believe, through the Sontag. And the Boyle——

The Court: They did what?

The Witness: Simulated the label.

The Court: Did they use the name?

The Witness: Not quite, but the shape of the bottle.

The Court: What did they do? What did they do?

The Witness: I don't recall. Visually, exactly what they did do, was take a bottle of vitamin product that substantially had the same content as ours. If you looked at the two labels and the two bottles about the only thing you could distinguish between them, as a customer would in a store, was that one label, I believe was brown and ours was blue. The simulation was so good that——



(Testimony of Oscar Wiseman.)

The Court: They used the name of Stuart Formula?

The Witness: No, they used some other name.

The Court: Did you bring suit against [473] them?

The Witness: No. I served a notice upon them and I got a written agreement from them to cease and desist, and they destroyed their labels and used a different label.

Q. (By Mr. Maiden): What was the other incident?

A. The other incident was very similar. The Boyle Laboratories were making a similar product for marketing through the Thrifty Drug Stores, which is a very big chain here.

The Court: Boyle concern out here?

The Witness: Yes. They were at Seventh and Alameda, approximately, in Los Angeles.

The Court: What did they do?

The Witness: They simulated the label and the package very similarly and I served them with a similar cease and desist order.

The Court: I have to ask you the same question. You see when things get into the record they are very vague. You say they "simulated." I understand what simulated means. You are talking about an infringement or a contended infringement. You will have to be a little bit more specific about it. What did they do to simulate your label?

The Witness: They used a bottle and they used a label, except for coloring or some other minor

(Testimony of Oscar Wiseman.)

matter, and [474] made it look very much like the product of The Stuart Company. It was brought to my attention by Mr. Lauerhass of The Stuart Company. They brought me samples of the bottle, I believe, and said, "We don't like it. They are copying our label and our bottle," in both instances; and they wanted it stopped.

The Court: They were using the same kind of bottles, is that right?

The Witness: That is right. It was an oval bottle they were using.

The Court: You can't prevent that, can you?

The Witness: Well, it is a matter of degree, your Honor.

The Court: If they use the name of Stuart Formula.

The Witness: No, I don't believe they did.

The Court: All right.

The Witness: They used some other formula and it was shaped and the lettering and everything——

The Court: They didn't use the name "The Stuart Formula"?

The Witness: No.

The Court: Did you bring a suit against them?

The Witness: No, we didn't have to file a suit. I served them with a cease and desist notice by registered mail. I later met, I believe, with their attorneys and got [475] them to sign an agreement to cease and desist, and thereafter they didn't mark it that way.

The Court: Was it a syrup product, like yours?

(Testimony of Oscar Wiseman.)

The Witness: Yes, it was a syrup product.

The Court: Was that the chief complaint?

The Witness: That was the complaint against those companies. We didn't care about them marketing any product. We didn't want the public misled and didn't want them to simulate our product.

The Court: They were getting out a product like yours and you didn't like it?

The Witness: Yes.

The Court: Go on. In getting into these things, they are going to be vague and the court has to ask questions. That illustrates why I ask questions. I am keeping an eye on what I am going to read later and I want to know what it means.

Mr. Maiden: I appreciate your Honor's interest and injection.

Q. (By Mr. Maiden): Mr. Wiseman, will you tell the court what the amendment was to be made to the application then on file?

The Court: Is this federal or state?

Mr. Maiden: This is federal.

The Witness: Federal. The change was from the [476] 1905 registration to the 1920 registration. And also we amended it to keep the requirements of the 1920 Act. The trade-mark had been in continuous use for one year to the time of the filing of our amendment.

The Court: Does the amendment say that?

The Witness: Yes.

The Court: Does the document speak for itself?

The Witness: I would say so.

(Testimony of Oscar Wiseman.)

The Court: Does it have to be explained? I would like you to explain what has to be explained, if necessary.

The Witness: The only explanation that I think should be given is the discussion that I had with Mr. Dunlap and possibly some of the discussion I had with Mr. Lauerhass regarding these various steps we took.

The Court: What was that?

The Witness: Well, there was a discussion with Mr. Dunlap.

The Court: When?

The Witness: At the hotel, the early part of the evening of November 27th.

The Court: Yes.

The Witness: It started off as a very heated conversation.

The Court: These applications for amendment were made at about the time of the [477] conference?

The Witness: They had been done prior to that time.

Mr. Maiden: This amendment, your Honor, was in July of 1942.

The Court: What are you talking about? Now you are getting away from your questioning. These are going to be offered as exhibits, are they?

Mr. Maiden: Yes.

The Court: May I look at them, please?

Mr. Maiden: Yes. I am going to offer them as exhibits.

(Testimony of Oscar Wiseman.)

The Court: Where is the other one? Is there another one? Is there just one?

Mr. Maiden: That is all, just that file. (Indicating.)

The Court: Is there any objection to this?

Mr. Mackay: No, your Honor.

The Court: It will be received as Respondent's Exhibit V.

The Clerk: That is V.

(The document above referred to was received in evidence and marked Respondent's Exhibit V.)

The Court: Mr. Clerk, may I have Respondent's Exhibits O and P?

The Clerk: Yes. [478]

Q. (By Mr. Maiden): Mr. Wiseman, I will ask you if you will examine Respondent's Exhibits O and P, and state whether or not you have ever seen those documents?

A. Yes, I have seen them before.

Q. Will you explain what Respondent's Exhibit P is?

The Court: How were those offered in evidence, were they offered through this witness?

The Witness: No.

Mr. Dunlap: Through me, your Honor.

The Court: Through Mr. Dunlap?

Mr. Maiden: Yes.

The Witness: This is really part—the Exhibit O is really a part of the November 28, 1942, agree-



(Testimony of Oscar Wiseman.)

ment. Exhibit P was a proposed draft of the actual assignment to be recorded with the patent office, of the trade-mark.

There was a proposed draft presented to me by Mr. Dunlap, which we did not accept. I prepared Exhibit O which we did sign and which they did accept.

Q. (By Mr. Maiden): Did you ever prepare any other assignment than Exhibit O?

A. So far as I know, no. That is the one I prepared and they accepted it in that form.

Q. Exhibit P then was not acceptable and was not [479] executed by Vita-Food Corporation?

A. I rejected that and told Mr. Dunlap what we would sign and we prepared it and presented it to him. He accepted it and I signed it, and they accepted it.

Mr. Maiden: Take the witness.

### Cross-Examination

By Mr. Mackay:

Q. Mr. Wiseman, do I understand you to say that it was the Rice Laboratories that were trying to simulate the product, the label?

A. I believe that was the name of the company.

Q. It is not important what company. A company was trying to simulate the label?

A. Yes.

Q. They didn't use the name of Stuart Formula or anything to indicate Stuart Formula?

A. No, Stuart was not in there.

(Testimony of Oscar Wiseman.)

Q. It was just a label they were simulating?

A. It was something or other formula.

Q. Principally it was the label they were trying to simulate? A. Yes.

Q. You were very much concerned about the label?

A. I was, and the Stuart Company——

Q. The Stuart Company was concerned about the label [480] and you were? A. Yes.

Q. So you had them desist?

A. That is right.

Q. That label was quite important in the eyes of The Vita-Food Corporation at that time, that particular time? A. It certainly was.

Q. And you wanted to preserve the label?

A. Yes.

Q. Now, I call your attention to Exhibit V, to what is called "Petition and Statement", and at the top of that it has just "The Stuart Formula", on a blue paper? A. Yes.

Q. Now, I will ask you if the label which had been used had been submitted to the Commissioner of patents? A. I don't know.

Q. You prepared the application, didn't you?

A. No, I didn't prepare the original application.

Q. Did you prepare the amended application?

A. Yes, I did.

Q. Do you know whether or not you submitted the label to the Commissioner of patents?

A. I believe what I submitted was this part which is shown here (indicating).

(Testimony of Oscar Wiseman.)

Q. That is all you submitted, just what you took off, [481] the part of the label—just the top of it bearing “The Stuart Formula” and submitted that, and that alone? That is right, isn’t it?

A. That is right.

Q. If you had submitted the entire label which you defended against the Rice people, which I show you now, which is Exhibit 9, do you think the Commissioner of patents would have granted your application?

A. I don’t think so.

Q. That is because that shows the label was the label of the Stuart Company? Wouldn’t that be a fact?

A. No.

Q. That would be one of the reasons why?

A. No.

Q. All right. Well, I ask you this: “The trade-mark has been continuously used and applied to said goods, in Applicant’s business since April 5, 1941?”

A. Yes.

Q. Now, is that trade-mark, if you submitted it to the Commissioner of patents—I mean just that top you see on Exhibit V that I point to, bearing only “The Stuart Formula”—to your knowledge did the Vita-Food Company ever sell any goods bearing just that particular portion of that label?

A. Yes, it did. [482]

Q. Just that one portion of that label?

A. No, not with that portion; the entire label with that as a part of it.

Q. Now, Mr. Wiseman, I think you stated yes-

(Testimony of Oscar Wiseman.)

terday that when you had some conversation with Mr. Dunlap——

A. May I explain that last answer further?

Mr. Maiden: What answer do you want to explain?

The Court: Mr. Mackay is cross-examining the witness. You may continue asking the question you just started to ask.

Mr. Mackay: Thank you, your Honor.

Mr. Maiden: I want the witness what he had in mind clear so I can get his explanation on redirect examination.

The Court: Read the last question.

(The record was read.)

The Court: Do you want to finish your question?

Q. (By Mr. Mackay): ——that there was discussion there with respect to the quality of product? I think you stated that after that conversation you went over to the plant and examined it.

A. No, I had heard such mutterings and I knew such assertions had been made. Long before I went into that——

Q. I know.

A. ——that meeting, I had made my own personal investigation. [483]

Q. When did you make your personal investigation?

A. Oh, I made my first visit to the plant, I think, in the summer of 1941.

Q. I see. Where was the plant located then?

A. In South Pasadena.

(Testimony of Oscar Wiseman.)

Q. Where? A. On Fremont Street.

Q. Where on Fremont Street?

A. I don't know the number. It was near——

Q. What block?

A. Near Huntington Drive on Fremont.

Q. What block?

A. It was really in two blocks.

Q. What blocks? Can you give the two blocks?

A. Yes. It was the—the plant proper was on the northwest corner of Fremont and Huntington Drive.

Q. Is that a commercial area?

A. In a commercial building, yes.

Q. What is surrounding the building, what kind of businesses?

A. As I recall it, the building was a rectangular building on that southwest corner, and the corner store was a drugstore and then there was—there were one or two intermediate stores, and then the plant was an L shaped space, which was really the south part of the building, and [484] west part of the building.

In other words, the plant really took up the—an L shaped form around the other stores in the rectangle.

Q. Was that a new building at that time?

A. No, it wasn't a new building.

Q. Do you know what use that building had been put to prior to that time? A. No, I do not.

Q. Don't you remember it was used as a cat and dog hospital?

A. I am sorry, I don't know. The other building



(Testimony of Oscar Wiseman.)

where the laboratory was located was on the opposite side of the street in a building on the north side of Huntington Drive and facing on Fremont.

Q. Well now, Mr. Wiseman, you went in the plant to make an inspection. I think in your testimony you said you saw some electric agitators operating in vats?           A. Yes.

Q. Or cylinders. What did you say? Do you remember what you said with respect to that?

A. I don't remember exactly. I saw a number of big vats, 100 to 200-gallon capacity, with agitators driven by electric motors, that looked something like a milk shaker you see on a soda fountain, only they were, of course, very much bigger. [485]

Q. Did you make an inspection to determine how many quality controls they had?

A. Yes, I made an inspection regarding that.

Q. How many quality control checks did they have?           A. I don't know, I don't recall.

Q. Was the building air-conditioned?

A. I don't recall.

Q. Did it have any machinery to purify the air?

A. I don't recall that.

Q. Do you know whether or not they had any checks there for rodents, rodent inspection?

A. I don't know that. All I can say is it was a clean, sanitary place.

Q. Just like a clean house would be?

A. It was as clean as the average kitchen.

Q. You don't know how many quality controls they had, either physical or chemical?

(Testimony of Oscar Wiseman.)

A. Yes, I do.

Q. How many? A. Well,—

Q. At that time.

A. There were three men in the laboratory who were graduate chemists who were there and made test samples every day.

Q. Where was that laboratory you are talking about [486] now?

A. It was on Fremont Street, on the east side of Fremont Street, and just north of Huntington Drive.

Q. How far away from the building you described before?

A. Oh, I would say about 250 feet, maybe 300 feet.

Q. Well, was the Pacific Right-of-Way between them?

A. Yes. You mean the Pacific Electric to Huntington Drive?

Q. Yes. A. Sure.

Q. Did the company at that time have a registered pharmacist on duty?

A. I don't believe so. I believe that what they had were some chemists who were connected with Cal Tech, who spent part of their time, part time there. Some of them formerly had been with Cal Tech, who spent all their time in the laboratory. I did know that Dr. Borsook was a consultant and would occasionally check the laboratory. I don't know personally that he would check the plant, but

(Testimony of Oscar Wiseman.)

I do know he checked the laboratory. I think Dr. Borsook took me through the laboratory.

Q. Now, Mr. Wiseman, I think you stated on direct examination that Mr. Hanisch had offered to purchase the trade-mark for \$100,000.00. Am I correct in that understanding? [487]

A. That is what Mr. Dunlap told me.

Q. When did he tell you that?

A. I believe in that second meeting at the Town House, that he mentioned that—from somewhere between \$80,000.00 and \$100,000.00, I believe, is what he said.

Q. Your statement yesterday, when you told the court Mr. Hanisch had offered you that, is not true, is that what you mean? Or you were mistaken, I should say.

A. I don't know what I did state at that time, exactly.

Q. Did you ever hear——

A. Any offer that Mr. Dunlap made, so far as I was concerned, was an offer by Mr. Hanisch.

Q. Isn't it a fact that during these negotiations that the only time that you talked to Mr. Hanisch was in the presence of Mr. Dunlap, and that was in a conversation that took place on November 27th and 28th and also November 22nd?

A. Yes,—well, I had met Mr. Hanisch before.

Q. I know, but I am talking about this. You had known him a long time?

A. Yes. When we were talking——

Q. Did Mr. Hanisch ever tell you after these ne-

(Testimony of Oscar Wiseman.)

gotiations started, did he ever tell you or offer to you or The Vita-Food Corporation to purchase the trade-mark?      A. Yes.

Q. When did he offer? What conversation [488] was that?

A. He offered it in that Sunday meeting.

Q. What date was that? The Sunday, is that the 22nd?

Mr. Dunlap: Yes.

Q. (By Mr. Mackay): Mr. Dunlap was there at that time?      A. Sure, he was there.

Q. You are absolutely sure of that, are you?

A. Certainly. Mr. Hanisch—as a matter of fact, when Mr. Hanisch was present——

Q. Just——

Mr. Maiden: Let him answer.

The Witness: He conducted the principal discussion on their side, Mr. Hanisch did the talking.

Q. (By Mr. Mackay): I understand that. Now are you sure that it was in the conversation of November 22nd when Mr. Hanisch made you that offer?

A. No. I think that offer was made in the previous meeting by Mr. Hanisch through Mr. Dunlap. I think that the figures we were talking about at that Sunday meeting were in the neighborhood of \$150,000.00.

Q. You are not quite sure Mr. Hanisch ever made you an offer of \$100,000.00 or made an offer to purchase the trade-mark?

A. Directly, no; through Mr. Dunlap, yes. [489]

(Testimony of Oscar Wiseman.)

Q. Now, do you remember just what the nature of the conversation or the substance of the conversation you had in that last meeting was? I will withdraw that.

Isn't it a fact, Mr. Wiseman, that the first conversation—or the second conversation—I will withdraw that.

Isn't it a fact that your conversation with Mr. Dunlap on November 22, 1942, and your conversation with Mr. Dunlap on November 28, 1942, and including the 27th, that those conversations were related principally to the settlement of the controversies that existed between The Vita-Food Corporation and The Stuart Company arising out of the contract of May 5, 1941? A. No.

Q. No?

A. No. Would you like me to explain that answer?

Q. Just a moment. You can have an explanation on redirect. Was anything said at the conference of November 28th, 1942,—I should say November 27 and 28, 1942—with respect to releases of the parties, respective party's release from obligation by virtue of the contract of May 5, 1941? A. Yes.

Q. That was an important subject at that time?

A. Oh, yes. We discussed it, sure.

Q. Now, you stated a moment ago, I think, Mr. Wiseman, [490] that in your opinion it was your belief at your last conversation you had with Mr. Dunlap and Mr. Hanisch on November 27th and 28th that the entire consideration of \$197,700.00,



(Testimony of Oscar Wiseman.)

specified in this agreement of November 28, 1942, was intended to be in consideration for the sale of the trade-mark?      A. Yes.

Q. At that time there was pending, wasn't there, by you, by the Vita-Food Corporation, against The Stuart Company—The Stuart Company had given The Vita-Food Corporation a notice of rescission of the contract, hadn't it?      A. Yes.

Q. You knew that Mr. Dunlap had prepared or was in the course of preparing a complaint which alleged fraud with respect to certain representations or misrepresentations made at the time of the signing or entering into the contract of May 5, 1941?

A. Yes.

Q. Now, do you mean to tell this court, with all those things pending at that particular time, the controversies pending between the two parties, you really mean to tell this court the entire consideration of \$197,700.00 was paid just for the [492] trade-name?

A. Yes, I mean to say that. And, as I told Mr. Dunlap and Mr. Hanisch at the time, the rest of these claims and rescission action was so much eye wash. I told them that with emphasis. I certainly do feel that the only thing that was under discussion, that permitted any discussion was the trade-mark, and I so told Mr. Dunlap and I so told Mr. Hanisch.

Q. You acquired a high respect for Mr. Dunlap's position in Pasadena, as a lawyer?

A. Yes, Mr. Dunlap and I exchanged compliments, particularly at the meeting at the hotel where

(Testimony of Oscar Wiseman.)

he congratulated me on a complaint I drew in a conjunction case.

Q. You don't mean to infer Mr. Dunlap wasted all his time drafting complaints, unless he believed he had some grounds for his claims, although you may have disagreed with him?

A. He was putting a bold front on, ~~after~~ they were in default, and he was trying to build—I told him he was building a lot of straw men here and I wasn't impressed with them. I wasn't willing to discuss the case on a so-called basis of any so-called fraud on a rescision. I told him I didn't like the fact he gave me a 48-hour ultimatum, and we had answered that by filing the suit. I was thoroughly prepared to meet him in court or any place else on the case.

I also told him that apparently he had been [492] practicing law a good many years more than I, but that I had lost a part of my amateur standing and I had rendered my opinion that there was no question about the legal rights to the trade-mark, and I just wasn't prepared to discuss it at all. As far as I was concerned, we had filed our law suit in answer to the ultimatum of theirs and we would discuss it before a tribunal where these things could be determined. We had started and we were prepared to go through with it.

Q. That suit was pending and you intended to go through with that suit you filed. You filed the suit believing it to be of some value. Now, wasn't any

(Testimony of Oscar Wiseman.)

part of the consideration paid for the dismissal of that suit?           A. No.

Q. Not a bit?

A. No. All the suit was was to protect our rights in our property, which was the trade-mark.

Q. Now, Mr. Wiseman, I will call your attention to Exhibit 12. Just a moment, before you begin to examine that, Mr. Witness. You have been in practice for quite some time, haven't you?

A. I started practicing law in 1932.

Q. In 1932?           A. Yes.

Q. You have practiced ever since that time?

A. I was out of practice for substantially two and a [493] half years, from 1942 to the end of 1945—1943 to 1945.

Q. Anyway, you have had enough experience to know what a sales contract is, haven't you?

A. Yes, I think so.

Q. As a lawyer you would admit, I would think, if a person entered into a sales contract that if you were drawing a contract up for selling some property the seller would agree to sell and the buyer would agree to buy? That would be the usual thing, wouldn't it?           A. Yes. If you want——

Q. Wait a minute.           A. All right.

Q. I will ask you to examine Exhibit 12 and point out to the court any terms in that agreement wherein the Vita-Food Corporation agrees to sell the trade-name or anything else. Take your time, Mr. Witness.           A. Well——

The Court: We will take a recess.

(Testimony of Oscar Wiseman.)

(Short recess taken.)

The Court: Proceed, Mr. Mackay.

The Witness: May I also see Exhibit P? I think that is the one which was the assignment, which goes with this.

Q. (By Mr. Mackay): Well, yes, I don't mind you seeing that if you wish.

The Court: You mean Exhibit O? [494]

The Witness: Yes, I mean Exhibit O, your Honor. Thank you. In Paragraph 2 we quitclaimed the trade-mark. That is language of the sale and transfer of the title. Then in Paragraph 6 and in Paragraph 7 there are provisions for reversion of title, which constituted an agreement of conditional sale.

Then also there is a covenant in here to execute the assignment which is Exhibit O, which is the actual transfer of title and which recites that Vita-Food sells, transfers, and assigns and so forth.

Q. (By Mr. Mackay): So those are the terms of the instrument which you say, in your mind, designate—I mean constitute an agreement on the part of The Vita-Food Corporation to sell the trade-mark?

A. Yes, I think from reading the four corners of the instrument, it can only be interpreted as a conditional sales contract.

Q. Now, refer to paragraph 2, Mr. Wiseman, which provides, “third party quitclaims without warranty (except that it does warrant that it has not heretofore conveyed, assigned, or encumbered any

(Testimony of Oscar Wiseman.)

right therein) to second party the trade-mark 'the Stuart formula'. The third party agrees to execute appropriate assignments, if requested, of registrations on file with the Secretary of State of the State of California [495] and the U. S. Commissioner of Patents." A. Yes.

Q. Now, you agreed to that language, didn't you? A. Certainly.

Q. You signed the contract?

A. Yes, I did.

Q. The request wasn't made for these assignments until after four and a half months afterward, were they? I refer you to Exhibit O.

A. The request was made at the time——

Mr. Mackay: Just a moment. May I have that request? I think it is Exhibit M.

Mr. Dunlap: M or N. It is a letter, your Honor, over my signature.

The Court: What is the letter about?

Mr. Dunlap: A letter of April 15, 1943.

The Court: Here it is.

Q. (By Mr. Mackay): I show you Exhibit N. Isn't it a fact that is the first request that The Stuart Company ever made on The Vita-Food Corporation for an assignment? A. No.

Q. Now, I will ask you, Mr. Wiseman, as a lawyer, if you intended to make a deal for your client for the sale of the trade-mark for a total consideration of \$197,700, do you [496] think you would have used this language in Paragraph 2 that an assignment would be made if requested?



(Testimony of Oscar Wiseman.)

A. Well, that language is actually Mr. Dunlap's, but I agreed to it. I see no reason why that language should not be used again in a similar case. The point was made quite clear and we all agreed that we would make an assignment in proper form so that the trade-marks of record with the Patent Office and with the California Secretary of State would show of record the ownership by Stuart Company, and that it was understood and agreed that any time they wanted it they could have an appropriate assignment.

The fact they did not formally request it or present a form until later made no difference to me. We knew that sooner or later, whenever they got around to it, we would execute appropriate assignments to be recorded with the respective public authorities.

Q. You did agree, though, and you were the one that signed this contract as Vice-President of Vita-Food?      A. Yes.

Q. You did agree that you would execute the assignment if requested?

A. Yes. And we were requested then. They said "We will get it to you, we have got other things to do." Mr. Dunlap was doing the typing. We didn't have a typist, or anything. [497]

Whenever they—it could have been the next day—as a matter of fact, I was a little surprised they didn't arrange it sooner.

Q. Now, Mr. Wiseman, the contract further states, and I call your attention to Paragraph 7 to which you just referred, that "in the event of the

(Testimony of Oscar Wiseman.)

abandonment of said trade-mark 'the Stuart formula' by second party—" then I am skipping something—that 'the Stuart formula' would vest in the Vita-Food Corporation.

Q. There was talk then, wasn't there, about abandoning the trade-mark? A. Yes, there was.

Q. So that in two days after the contract had been executed The Stuart Company had abandoned the trade-mark, that would then immediately become the property of Vita-Food Corporation?

A. Yes.

Q. Without any consideration at all passing from the Vita-Food Corporation? A. Yes.

Q. You mean to tell this Court that a trade-mark, if it is worth \$197,700.00 on November 28, 1942, it is a sensible interpretation of this contract, if that trade-name would have been abandoned the next day, that valuable trade-name, in your mind, would have come back to you without any [498] further consideration?

A. Yes. We would have been able to keep the payments made up to that time. But I doubt very much whether or not we could have collected additional balances. In other words, we wanted our money or we wanted the trade-mark back; just like you would have on any conditional sales contract.

Q. The contract was a definite obligation on the part of The Stuart Company to pay \$197,700.00, irrespective of the abandonment, wasn't it?

A. Well, I would have to think that over. [499]

Q. Read the contract. I refer you to Paragraph

(Testimony of Oscar Wiseman.)

4 and ask you if that isn't a definite commitment on the part of The Stuart Company to pay \$197,700.00, irrespective of the fact that it maintained "the Stuart formula" or abandoned it.

A. Yes, Paragraph 4 contains an unconditional promise to pay. However, with regard to abandonment, that is contained in Paragraph 6 here, and I would want to read it.

Q. Take your time.

The Witness: Would you mind reading the question?

(The question was read.)

Q. (By Mr. Mackay): Do you understand the question? A. The answer is no.

Q. Is that because I said \$197,700.00? I should have said \$122,700.00.

A. I am not concerned about the exact amount. Paragraph 4 is an unconditional promise to pay. Paragraphs 6 and 7—Paragraph 7 only provides for the event of abandonment, and the contract does not have a clause that the remedies of the seller are cumulative. So, in my opinion, we had the right to insist on the balance, on the one hand, or to retain the property, in the event they did abandon it. I believe you asked for my opinion.

Q. May I ask you this question: The contract, in your [500] opinion, doesn't the contract provide this \$122,700.00 shall be paid at the rate of 7½ cents a unit whether sold under "the Stuart formula" or not?

(Testimony of Oscar Wiseman.)

A. That is right. It is an unconditional promise to pay. But, on the other hand, the contract does not provide for cumulative remedies. If we retook the property, in my opinion, we would not have the right to collect any balances then unpaid at the time we took it back. We would have the right to our money or the property.

Q. You knew at the time that Mr. Hanisch and The Stuart Company had some discussions about abandoning the trade-mark?

The Court: May I just interrupt you there?

Mr. Mackay: Yes, your Honor.

The Court: Mr. Wiseman, if the contract of sale were entered into and one party failed to pay the money consideration, the contract to sell the property, and one party failed to pay the money consideration for the purchase of the property, what would be the remedy of the seller?

The Witness: We could declare the entire balance due or retake.

The Court: You wouldn't have to have any clause in a contract about that at all, would you? Now, if, under this contract, you have here, there is a provision that if The Stuart Company should abandon the trade-name it would [501] return to The Vita-Food Corporation.

The Witness: Yes, your Honor.

The Court: That clause is there in a separate clause?

The Witness: Yes.

The Court: Under your contract that clause



(Testimony of Oscar Wiseman.)

would operate even though The Stuart Company might pay the full cash consideration called for by that contract, that is, they were to pay something like \$167,000.00 in full, and they could pay \$167,000.00 in full, abandon the use of that trade-name, and it would revert to The Vita-Food Corporation, that is to say,—may I see the contract?

The Witness: Surely.

The Court: Would you take this into consideration: That Clause 7 says, “In the event of the abandonment of said trade-mark ‘the Stuart formula’ by Second Party—” that is in the disjunctive—“of the insolvency or bankruptcy of the Second Party the trade-mark ‘the Stuart formula’ and all registrations thereunder shall vest in and be the property of the First Party.”

Now, I would like your opinion on this: You have been asked to give your opinions on several points about this contract. Supposing that three years from now The Stuart Company should abandon the trade-name “the Stuart formula”, under Clause 7 wouldn’t that trade-name revert to Vita-Food Corporation? [502]

The Witness: No. Those are security clauses, to provide, in the event of default. It was never the intent—if they paid their money they were entitled to it. If they didn’t pay their money or abandoned it, we got it back.

The Court: That was your interpretation?

The Witness: Yes, that is what we intended.



(Testimony of Oscar Wiseman.)

The Court: Who asked to have the clause inserted for abandonment?

The Witness: I did.

The Court: Into Clause 7?

The Witness: Yes.

The Court: Mr. Mackay.

Mr. Mackay: Yes, your Honor.

Q. (By Mr. Mackay): Now, as I started to ask you, there had been some discussion by Mr. Hanisch and you and Mr. Dunlap regarding the abandonment of the trade-mark.

A. Yes, there was considerable discussion about that, before that was inserted.

Q. And yet you mean to tell this Court, in view of those discussions and in view of the fact you put that in there yourself, that the total consideration of \$197,700.00 was paid for that trade-mark.

A. I do. The matter of the abandonment was simply to secure us in the event they did that particular act. We [503] wanted our money or we wanted the trade-mark back.

Q. Wasn't it important, so far as you were concerned as an officer of the company, for Mr. Hanisch to stay in the picture as managing agent?

A. It certainly was.

Q. And that was because of his ingenuity and super-salesmanship, wasn't it?

A. No, I didn't know very much about that. That was because Mr. Hanisch personally told me—Mr. Dunlap told me he had put in about \$60,000.00 into the company by way of loans and the company had

(Testimony of Oscar Wiseman.)

no assets and it was indebted to Mr. Hanisch. If he was not bound by the agreement, it wasn't worth two cents. We wanted him bound and wanted him to stay there.

Q. The agreement with the company would not be worth two cents?

A. Agreement by The Stuart Company to pay \$200,000.00 on that date would have been an entirely worthless promise.

Q. Would it have been after that?

A. Pardon me?

Q. Would it have been after that?

A. I don't really know how well or how badly The Stuart Company has done since. I understand they have done very well.

Q. This contract was supposed to run over a period of [504] time. There are payments to be made over a period of years under this contract of November 28, 1942.

A. What is your question?

Q. In your view, then, the contract wouldn't have been worth a thin dime unless Mr. Hanisch had been kept in there as the managing agent and maintained his ownership in stock.

A. As far as I was concerned, The Stuart Company was the mere agent of Mr. Hanisch; unless he directly promised in this agreement we were not interested in making any deal whatsoever.

Q. I see. Do you know who the stockholders of The Vita-Food Company were when it was organized? Or I mean about May 5, 1941.

(Testimony of Oscar Wiseman.)

A. No, I don't.

Q. Were you a stockholder?

A. Not May 5, 1941.

Q. Did you ever send out any notices of meetings of stockholders? A. I don't recall now.

Q. Are you a stockholder now?

A. No, I am not.

Q. Were you a stockholder subsequent to that time? A. Yes, I was.

Q. Did you have any idea who the stockholders were [505] of The Vita-Food Company May 5, 1941?

Mr. Maiden: He just stated he didn't.

The Witness: I have an idea who they were.

Q. (By Mr. Mackay): Who were they?

A. I believe the stockholders then were Mr. Overton, Mr. Shotland, Mr. McBride and Mr. Lewis. There might have been one or two others; I can't recall now. I think those were some of the stockholders at that time.

Q. Now, do you remember receiving two checks at the Vista Hotel from Mr. Dunlap on November 27th?

A. I know that I got at least one or two checks that evening. I don't remember who handed it to me.

Q. Isn't that the reason Mr. Dunlap called you, to give you these checks for orders that had been placed?

A. He mentioned that as a reason he had called me, one of the reasons.

Q. There had been some controversy about the payment, hadn't there?

(Testimony of Oscar Wiseman.)

A. Oh, yes. I told him we would be glad to fill the orders.

Mr. Mackay: You may take the witness.

### Redirect Examination

By Mr. Maiden:

Q. Mr. Wiseman, do you recall now what explanation [506] you wanted to make in connection with some answer you gave to one of Mr. Mackay's questions?

I was afraid of that. We will have to pass it.

A. I might remember it if you give me a moment. Oh, yes. I think I remember the explanation I wanted to give, in connection with the preparation of the amendment under the 1920 Act. I called for evidence, what evidence there had been that shipments had been made in interstate commerce. I was shown some of the business records of the company and some correspondence where some pilot shipments had been made, I believe, by mail. One was to Chicago, as I recollect, and one some place else. I satisfied myself that there had been some shipments in interstate commerce a year or more prior to the time we filed the amendment.

Q. Now, Mr. Wiseman, coming to this agreement of November 28, 1942, whose language in this contract would you say—from whom would you say the bulk of the language in this contract came, you or Mr. Dunlap?

A. Mr. Dunlap.

Q. Was there anything said there that night by

(Testimony of Oscar Wiseman.)

Mr. Dunlap with respect to the tax consequences of the transaction?

A. Yes, that was thoroughly discussed.

Q. Tell the Court whether or not you had any impression with respect to the particular wording of the contract [507] by Mr. Dunlap.

Mr. Mackay: If the Court please,—

The Court: Read the question.

Mr. Mackay: —I object to that as calling for a pure conclusion. I don't mind the witness—

The Court: Objection sustained.

Q. (By Mr. Maiden): By the way, Mr. Wiseman, did Mr. Lewis call you on the telephone or did you call Mr. Lewis on the telephone at any time during the night?      A. I called him once.

Q. Do you recall what the purpose of the call to Mr. Lewis was?

A. I think it was about 3:00 o'clock in the morning. I told him what looked like the final offer, if there was going to be a sale, would be at \$200,000.00, and I wanted his views on whether or not he thought that was adequate.

Mr. Maiden: I believe that is all, if the Court please.

Mr. Mackay: No more questions.

The Court: You may step down.

The Witness: May I be excused, your Honor?

The Court: May the witness be excused?

Mr. Mackay: So far as we are concerned.

Mr. Maiden: If the Court please, I do want to ask [508] Mr. Wiseman this question:



(Testimony of Oscar Wiseman.)

Q. (By Mr. Maiden): Mr. Wiseman, I call your attention to Exhibit—it looks like Exhibit G, Respondent's Exhibit G, a letter dated December 9, 1941, which was from The Stuart Company to The Vita-Food Corporation. I will ask you if this letter explains the protection by The Stuart Company of some alleged infringement by the two companies that you testified to.

A. Yes, it does. This corrects me. The name of that company that was infringing was the Rite Laboratories.

Q. It was in response to this letter you took the action you testified about?

A. Yes, I talked to Mr. Lauerhass after that letter came in.

The Court: You are referring to Exhibit G, is that correct?

The Witness: Yes.

The Court: All right.

Mr. Maiden: That is all.

The Court: I will ask counsel for the Respondent the name of his next witness, because I don't know whether to excuse the present witness or not.

Who will be your next witness?

Mr. Maiden: It will be Dr. Borsook.

The Court: Are you calling Mr. Lewis? [509]

Mr. Maiden: Yes, your Honor.

The Court: Then I think you will have to stay, Mr. Wiseman. I guess we will go right ahead. We will be finished today, if you can just stay with us a little longer.

(Witness excused.)

Mr. Maiden: Dr. Borsook.

Whereupon,

DR. HENRY BORSOOK

called as a witness for and on behalf of the Respondent, having been first duly sworn, was examined and testified as follows:

The Clerk: Tell us your name, please, Doctor.

The Witness: Henry Borsook.

Direct Examination

By Mr. Maiden:

Q. Dr. Borsook, what is your present occupation?

A. Professor of biochemistry at The California Institute of Technology.

Q. How long have you occupied that position?

A. I have been at Cal Tech since 1929. I have been staff professor since 1935.

Q. Dr. Borsook, will you please briefly give us your educational background, relating to your position that you hold at Cal Tech?

A. Well, I took a Bachelor's Degree, majoring in [510] physiology and biochemistry at the University of Ontario in 1921, PHD 1924, MB, which is the equivalent of a mere MD in 1927. That was changed for convenience for living in America to MD in 1940.

Q. An MD, that is a doctor of medicine?

A. Yes.

Q. You likewise have your PHD in what field?

(Testimony of Dr. Henry Borsook.)

A. Biochemistry.

Q. Dr. Borsook, will you briefly tell the Court what positions you hold on any government or state boards or committees or commissions?

A. At the present time?

Q. At the present, and what positions you have held in the past.

A. Well, at the present time I am a member of a committee of the National Research Council concerned with the feeding of industrial workers.

I am a member of the committee of the Atomic Energy Commission. During the war years I was a member of the Food and Nutrition Board. I was a consultant to the War Production Board and to the War Food Administration.

Q. Doctor, in your years in the field of biochemistry, tell the Court whether or not you made any particular study with respect to vitamins.

A. My studies with respect to vitamins were in part [511] clinical, that is, their effect on human beings suffering from various elements, in part chemical; the chemical behavior of certain vitamins.

Q. Have you written any books on vitamins, Dr. Borsook?

A. I published a book on vitamins called by that name.

Q. Called by that name?                      A. Yes.

Q. Dr. Borsook, how long—or do you know a Mr. Hanisch?

A. Well, my acquaintance with Mr. Hanisch be-

(Testimony of Dr. Henry Borsook.)

gan very short before—a matter of not more than a month or two—it is difficult for me to remember the exact time, but certainly shortly before Mr. Hanisch came into this company which eventually marketed “the Stuart formula.”

Q. Dr. Borsook, how long have you known Mr. M. H. Lewis?      A. About 15 or 16 years.

Q. Will you tell the Court whether or not you had been making any studies there at Cal Tech with respect to vitamins and vitamin concentrates? Tell the Court what work you have been doing and what you had in mind, if you have.

A. From about 1931 onwards I began with the assistance of several doctors, who were practicing medicine, the possible [512] usefulness of vitamin concentrates in certain ailments, common ailments, and in the course of those studies it was clear that we needed badly—by “we” I mean the community—vitamin concentrates that would be cheap and palatable, because in those days they were dear and they weren’t very good. It was early in the game.

Those studies went on all through the ’30’s. Then when the war clouds began to roll up—we were not at war—about a year and a half before we were at war the faculty of Cal Tech met and decided, in view of the international situation, that each one of us would try to find out in what way we thought we could contribute to the national effort, even if it meant abandoning our previous scientific work.

After a good deal of discussion among ourselves we thought probably in the field of nutrition, applied

(Testimony of Dr. Henry Borsook.)

nutrition, we could do this. Not long afterwards I discussed it with Mr. Lewis, whom I saw off and on a good deal all through those years.

Q. What was the occasion of your seeing Mr. Lewis?

A. We were friends. We met from time to time. I knew of his interest in public affairs and his interest in Cal Tech and his great concern about the war, so that I knew he would be interested in this decision of both the faculty of Cal Tech and ourselves. I called him up, and as friends [513] do, he came one evening and we talked it over.

At that time he volunteered his assistance, which we gladly accepted because what we had in mind and eventually carried through was a memorandum to various government officials and international reserve council on the proper utilization of food in the war, both by the civilian and military population, and also for people who were under great strain that might need supplementation.

Well, the preparation of that memorandum took, if my memory is correct, about six months. It was a long arduous task.

Q. Did Mr. Lewis participate in any way?

A. He participated in a very intimate way and continuously, and made very great contributions.

Q. Did you receive any compensation for that?

A. None whatsoever. He is a very penetrating critic. He knows the ways of government procedures, which we didn't. He also had friends there. At the end that memorandum was sent, in June, 1940, if



(Testimony of Dr. Henry Borsook.)

my memory is correct, to Washington. I should say that Mr. Lewis' contribution to the presentation as it was written, and to the manner in which it was handled, was of very great importance and of very great value.

Q. Did that memorandum form the basis for any inquiry received by you from any foreign emissaries?

A. Yes. If I may take the time of the Court for a [514] moment or two——

The Court: May I ask what the materiality of this is, please?

Mr. Maiden: I am just sort of trying to get a little bit of the background. I am going to hurry it through.

The Court: Background of what?

Mr. Maiden: The background of this whole thing. We have got to start—have got to sort of have a starting point, and I think that in view of certain implications that have been made in the presentation of Petitioner's case with respect to misrepresentation of the quality of product and things of that nature, that this fits into the picture and leads in and shows good faith, shows soundness.

Q. (By the Court): Dr. Borsook, do you say that memorandum on nutrition was prepared at California Institute of Technology?

A. That is correct.

Q. Is that correct?

A. That is correct, your Honor.

(Testimony of Dr. Henry Borsook.)

Q. And it was sent to the National Nutrition Council?

A. No, to the National Research Council and——

Q. Where? A. In Washington.

Q. Is that in the government or not?

A. No, it has a peculiar relationship to the [515] government. It is outside the government and yet it derives some of its funds from the government.

Q. What was the title?

A. "Memorandum on National Defense."

Q. It was a memorandum on national defense?

A. Yes.

Q. Now, what was your main headings in that memorandum?

A. One, that we should try to get the armed forces to use the modern science of nutrition in the feeding of troops. Second, we should do the same thing for the civilian workers. We pointed out that could be done economically and effectively.

And third, the older men who had positions of great responsibility, both in civilian life and the armed forces, would need and benefit from nutritional supplements. And we pointed out that that might be done.

The Court: All right. Now, Mr. Mackay.

Mr. Mackay: I would like to say, if your Honor please, to cut this short, I will admit that Dr. Borsook is a distinguished gentlemen connected with one of the finest institutions in America, California Institute of Technology, if that will give sufficient admission for his background.

(Testimony of Dr. Henry Borsook.)

Mr. Maiden: I will speed along, if the Court please. [516]

The Court: I don't see the connection at all between this memorandum to the National Defense Council and the question in this case.

Mr. Maiden: Yes.

Q. (By the Court): You had assistance in the preparation of this memorandum?

A. Yes. Dr. G. E. Keighley, Dr. Ellis and Mr. Hatcher and Mr. Lewis.

Q. Are they all on the faculty?

A. No; Dr. Keighley is on the faculty of the Institute still. The other two gentlemen are not.

Q. They were?

A. Dr. Ellis was. Mr. Hatcher was a graduate student of mine.

Q. (By Mr. Maiden): Now, Dr. Borsook, will you explain to the Court what, if anything, you had to do with the preparation of the vitamin concentrates sold as "the Stuart formula"?

A. I was the consultant and adviser, scientific adviser. The formula as proposed by me was the basis of the preparation and the method of making it was worked out under my direction.

Q. Where was the work done?

A. At California Institute of Technology, in my laboratory. [517]

Q. Now, Dr. Borsook,—

The Court: Just let me ask you a couple of questions.

Mr. Maiden: Yes.

(Testimony of Dr. Henry Borsook.)

Q. (By the Court): Can you state whether there was some particular feature about your idea? Very often one idea is important in a formula.

A. I should say there was a general, shall we say, sociological idea. We wished to find a concentrate which was cheap enough for people with ordinary means to use, where abundance of supplies would be available.

Q. What made this cheap?

A. The use of materials like molasses. And at one time we felt we could use by-products such as yeast, which we later had to abandon.

Q. Is that the main idea, molasses?

A. No, no. The molasses was a vehicle and it turned out a fortunate choice, I should say.

Q. It was what?

A. A fortunate choice, because of unexpected properties it possessed, chemical properties.

Q. What were those?

A. It contributed to the stability of the vitamins.

Q. Yes.

A. For unexpectedly long times. To my mind then as [518] now the most important contribution was the formula itself. At that time it was not common knowledge, even among scientific people, what was really the best balance of different vitamins to include in a supplementary formula. There were a great many preparations on the market, of course, and they were bizarre in their composition.

Q. They were what?

A. Bizarre in their composition.

(Testimony of Dr. Henry Borsook.)

Q. In what way?

A. There were enormous amounts of, shall we say, Vitamin A or negligible amounts of Vitamin D or B. It was clear, and nearly all of them have extraordinarily small amounts of what we then called the Vitamin B Complex. Our studies indicated it was the deficiency of the Vitamin B Complex that was most needed.

Q. Was that a kind of multi-vitamin compound?

A. It was a multi-vitamin compound preparation.

Q. The idea is to compound several necessary vitamins to supplement the nutritional lapse, is that correct?

A. That is correct.

Q. Now, you were working on this formula in what year?

A. I should say the formula itself was the result of studies which had been going on with myself directly since 1931.

Q. I mean just about when did you have this work [519] completed?

A. The completed, the laboratory in my mind——

Q. No. I mean completed in the laboratory so that these commercial people could use it.

A. We didn't undertake that work, although Mr. Lewis had suggested it, until the memorandum had been sent off, although we talked a good deal about it.

Q. I am asking you the year, please.

A. It would be 1940, toward the end of 1940.



(Testimony of Dr. Henry Borsook.)

Q. Toward the end of 1940? A. Yes.

Q. You had made, compounded the syrup in your laboratory, is that correct? A. Yes.

Q. With the multi-vitamin formula?

A. Yes, that is correct.

Q. Now, at the end of 1940, had other laboratories developed a multi-vitamin compound, using some other base or something else? Were there other multi-vitamin formulas on the market?

A. Yes, long before, years before this. But the formulas were to my mind unsatisfactory.

Q. You didn't agree with the formulas but there were multi-vitamin formulas on the market?

A. Oh, yes. [520]

Q. You didn't originate the multi-vitamin idea?

A. Oh, no.

The Court: I see. All right. Go ahead.

Q. (By Mr. Maiden): Dr Borsook, what connection, if any, did you have during the years 1941 and 1942 with the manufacture by The Vita-Food Corporation of this concentrate that is sold through The Stuart Company?

A. Certainly, you will have to excuse me if I don't remember the exact dates, because toward the end of the period you mentioned I terminated my connection.

The Court: Your connection with what?

The Witness: As a consultant to the Vita-Food Corporation.

The Court: About what time was that?

(Testimony of Dr. Henry Borsook.)

The Witness: My impression is it was toward the end of 1941, but I might be off, as happens.

The Court: Let me ask you this:—

The Witness: Yes.

The Court: —had they put up this preparation during 1941?

The Witness: Oh, yes.

The Court: They had?

The Witness: I am sure of that.

The Court: They had put it up? [521]

The Witness: Oh, yes, yes, it was going.

The Court: It was under what name? What name were they selling it under?

The Witness: It went under a variety of names at first. I think it was Vitall, and then Mr. Charley King came in and sold it as Buoyant B and then eventually as “the Stuart formula.”

Q. (By Mr. Maiden): Now, just what connection did you have with the manufacture by The Vita-Food Corporation of this concentrate during the period of time that you operated as a consultant?

A. Well, I supervised, discussed and had to be satisfied on everything that was done in a technical way. The three gentlemen whose names I mentioned did a good deal of the manual work in the early stages, and later on, of course, it was taken over by a regular production staff.

Furthermore, from the very beginning there was no difficulty about it, everyone agreed it was the sensible thing to do. We took samples and assayed

(Testimony of Dr. Henry Borsook.)

them and sent duplicate samples away, which we assayed at intervals so we could learn what the stability was of the different vitamins.

We were continually exploring new and better and cheaper sources of materials in order to make the product cheaper. That was my main interest in the thing. In fact, [522] my chief interest in it. And from time to time there were naturally with the development of a new product technical problems, procedural, on which I was consulted.

Q. Dr. Borsook, in your analysis of that product as it was being manufactured, how did it compare qualitatively with the vitamin concentrates then on the market?

A. By qualitatively you mean with respect to vitamin concentrate or what?

Q. I mean as to either excellence as a vitamin concentrate——

A. Well, I was definitely of the opinion, an opinion which I could have supported with facts, it was the best one in America. It was so designed to be so and at a cheaper price than any other in America. That was my only point in spending my time on it.

Q. Did anything occur to cause you to change your opinion as to that formula?

A. No. As a matter of fact, that basic pattern of vitamins was finally the basis of what is called the "Recommended Daily Allowances of the National Research Council."

I don't want to say I personally persuaded them.

(Testimony of Dr. Henry Borsook.)

It represents a consensus of opinions of experts over the country.

Q. Now, Dr. Borsook, there has been some testimony in this case regarding these bottles containing some of [523] Stuart formula exploding.

A. Yes.

Q. Did you make any investigation of that?

A. We made a great many investigations of that. That was a difficult problem. In fact, it was a problem that men I knew in the industry told me hadn't been solved and couldn't be solved. That if you worked in molasses you had an unsurmountable gas problem. That problem was finally solved.

Q. How about fermentation?

A. Never any fermentation. The gas problem was not a problem of fermentation. It was quite a different problem.

The Court: I think you will have to make your testimony clear on that. It has been testified here that the substance, the preparation got out of the bottles in some way.

The Witness: Yes.

The Court: Now, is that true?

The Witness: That certainly was true.

The Court: That was true?

The Witness: Yes.

The Court: And your explanation is that some gases developed?

The Witness: Yes.

The Court: And did cause the stopper to leave the [524] bottle?

(Testimony of Dr. Henry Borsook.)

The Witness: Yes.

The Court: So it is true that in 1941 and 1942 there was, I guess we could call it, a defect in the preparation?

The Witness: During the warm months.

The Court: During the war months?

The Witness: Yes, only during the warm months.

The Court: What period would that be?

The Witness: Roughly the summer.

The Court: During the warm months, w-a-r-m months?

The Witness: Yes.

The Court: Of the year.

The Witness: Yes.

The Court: I mean during what period in years, was it in 1941-1942, the time period in this case?

The Witness: '41.

The Court: It was 1941 and 1942?

The Witness: It was during the summer of 1941. By the end of '41 that problem was solved and did no longer give trouble, to the best of my knowledge.

The Court: If there had been any of this stuff on the market at the end of 1941 that problem might have developed in some stores in 1942? [525]

The Witness: If it was old stock, yes, sir.

The Court: If it was old stock?

The Witness: Yes.

The Court: All right.

Q. (By Mr. Maiden): Dr. Borsook, will you explain how it is that you could use a molasses base and not have any fermentation?



(Testimony of Dr. Henry Borsook.)

A. I hope the Court——

The Court: He said fermentation——

The Witness: There was no fermentation, there never was.

The Court: The term “fermentation” was perhaps incorrectly used. Maybe that is a layman’s expression. Instruct counsel what term he should use there.

The Witness: Gas formation. Fermentation is a development of carbon dioxide by yeast and bacteria. There was a gas formation as a result of known biological reaction, which was the problem.

Q. (By Mr. Maiden): I had reference to the testimony of Mr. Miller here that you couldn’t use a molasses base because it would always ferment. Is fermentation and the formation of gas one and the same thing, Dr. Borsook?      A. No.

Q. That is what I want you to explain, how it is you [526] could use a molasses base without fermentation?

A. Yes, sir. And very, very few micro organisms of any kind will grow and live in a sugar concentration as high as in molasses. You add a lot of water to the molasses and it will ferment merely in the highly concentrated form in which it was used. There is no biological action of that character. There was a chemical action of a non-biological character which gave rise to gas and that was the problem which the molasses is very familiar with. It is not a discovery, it is an old problem. Anyone expert in dealing with molasses distinguishes at once

(Testimony of Dr. Henry Borsook.)

between fermentation and this problem of gas formation.

Q. Below what percentages, that is, the pure molasses would fermentation occur?

A. You would have to add—I would want to consult the literature to give you precise figures. I will make a rough guess, to make that ferment and to be sure it will ferment you would have to add at least two parts of water.

Q. Now, Dr. Borsook, I will ask you to state to the Court whether or not this concentrate prepared by the Vita-Food Corporation, in accordance with your formula, met the Food and Drug Act requirements?

A. Yes, we were naturally careful to comply with the Food and Drug Act regulations.

Q. Now, Dr. Borsook, I want you to tell the Court [527] the occasion for your meeting Mr. Hanisch and in substance about what the conversation was.

A. That is very difficult. I remember the general set of circumstances under which I met Mr. Hanisch. As I mentioned, one of the people who sold the concoction we had made up with some small success in this locality was Mr. Charley King, who was then a reporter on the Pasadena Star News, I believe.

For reasons which I don't remember and which didn't interest me—I wasn't consulted especially—he brought Mr. Hanisch into the picture. I imagine that Mr. Hanisch, naturally, knowing my associa-

(Testimony of Dr. Henry Borsook.)

tion with it, as a sort of warrant, shall we say, for the quality of the product, asked to meet with me and such a meeting must have been arranged, because we met.

Q. All right.

A. And naturally Mr. Hanisch—I will have to reconstruct in the singular—I don't remember——

Q. All right, Doctor.

A. ——asked about the product, naturally, which I told him as much as I felt I was at liberty to. I think he asked me what my financial interest *as* in it, and I told him it was none. There was just that kind of exploratory conversation of a personal character.

We met a number of times after that. I think they [528] were always quite friendly occasions. Does that answer your question?

Q. Dr. Borsook, did Mr. Hanisch tell you that he was contemplating entering into a contractual relationship with The Vita-Food Corporation for the sale and distribution of this concentrate?

A. I don't know whether he told me directly, but it was obvious from the whole conversation. That was clear. I mean that was the purpose of our getting together. I was in on subsequent meetings where details were discussed and so on.

Q. Well now, do you recall those details, and in what connection they were discussed?

A. You will have to ask more specific questions, because I am afraid I would ramble all over.

Q. Dr. Borsook, did Mr. Hanisch seek certain

(Testimony of Dr. Henry Borsook.)

guarantees by you with respect to this concentrate, in the event you should enter into a contract with Vita-Food Corporation?

A. No, that is not my memory, because I wouldn't have given him one. He had to take my word, I was behind it. And I would see to the best of my ability it was a good product, and I told him that at the very beginning. That is the only kind of guarantee I could or would give.

Q. I believe you are still of the opinion that is a good product, was then a good product and is now a good [529] product.

A. Yes, it is excellent.

Q. Dr. Borsook, did Mr. Hanisch ask you for any assurances as to the financial ability of Mr. Lewis to manufacture this?

A. I don't think Mr. Hanisch——

Mr. Mackay: I object to that, if your Honor please; it is a leading question.

Mr. Maiden: If the Court please, Dr. Borsook is not very clear on this matter. I haven't discussed it with him.

The Court: Read the question, please.

(The record was read.)

Mr. Maiden: If the Court please, the testimony of Mr. Hanisch was that he received certain representations from Dr. Borsook with respect to the financial ability and general reputation, so to speak, of Mr. Lewis. Your Honor will recall that testimony. I am simply wanting to find out what repre-

(Testimony of Dr. Henry Borsook.)

sentations Dr. Borsook made in that connection, if any.

Mr. Mackay: I will withdraw the objection. I am sorry I made it.

The Witness: My recollection is that Mr. Charley King was the intermediary with that question. And I remember telling Mr. King that of course I knew nothing about Mr. [530] Lewis' financial circumstances, but that I had known him for a good many years. He had always made good on his commitments and on his promises, large and small, with me. They were small promises. They were always kept. I knew of his connection with other people. If Mr. Lewis gave his word he would see this thing through, that was good enough for me, and I thought it should be good enough for Mr. Hanisch.

Q. (By Mr. Maiden): Do you still have the same opinion of Mr. Lewis? A. Yes.

Q. Now, Dr. Borsook, something has been said in this lawsuit about controls or control numbers. I don't know what it is. Could you explain that?

A. Yes. With every batch of material which is made and put in the bottles there is a certain number of samples taken out that day and they are given a number. One is analyzed as quickly as possible, and others are set aside under different conditions, and then analyzed from time to time, in order to learn about the keeping qualities of the product. That is a routine procedure, and that was done from the very beginning.



(Testimony of Dr. Henry Borsook.)

Mr. Maiden: Take the witness, Mr. Counsellor.

Cross-Examination

By Mr. Mackay:

Q. Dr. Borsook, did you introduce Mr. Hanisch to Mr. Lewis?

A. I did not. To the best of my knowledge I think Mr. King was the intermediary there.

Q. What was the educational qualifications, so far as you know, of Mr. Lewis?

A. I don't know, except knowing him up to that time for about seven years, I should say he is one of the most intelligent, most educated people I had met. I don't know what schooling he had had.

Q. You have no idea of his background?

A. No.

Q. What kind of business was he in when you first knew him? A. I don't know.

Q. You didn't know what business he was in?

A. No. I don't inquire into the businesses of my friends. If they don't tell me I don't ask them. Do you?

Q. I want to make sure they are not a bootlegger.

Mr. Maiden: Mr. Mackay, are you inferring in this case somebody is a bootlegger?

Mr. Mackay: I withdraw it. I am sorry, Mr. Counsel. [532]

Q. (By Mr. Mackay): I meant, really, Dr. Borsook, you wouldn't recommend that a man was reliable and financially responsible to carry unless

(Testimony of Dr. Henry Borsook.)

you had a pretty good idea of his business capacity and business experience, would you?

A. Well, Mr. Mackay, I had some experience with that.

Q. That is what I am asking, what the background was of Mr. Lewis.

A. I have known Mr. Lewis for a good many years.

Q. What business was he in?

A. I don't know what business he was in then. I do know, in the course of the development of this particular product, over a period of nearly a year, Mr. Lewis—a good deal of money was necessary, many thousands of dollars, and a good deal of business arrangement and negotiations were necessary, all of which was carried out by Mr. Lewis. We didn't put up any money.

Q. Did that demonstrate your idea of business confidence in him?

A. That, plus my seven years' knowledge of Mr. Lewis and knowledge of a number of his friends with whom he had considerable dealings, who had never a dissenting voice as to his business ability and personal and financial integrity.

The Court: Do you know whether or not Mr. Lewis had any technical background? [533]

The Witness: I don't know, but he had it after he was through with me.

Mr. Mackay: I imagine he would. I am afraid I will know something, too; I hope.

Q. (By Mr. Mackay): Now, your principal in-

(Testimony of Dr. Henry Borsook.)

terest I understand you to say was to really raise the standard of nutrition of the American people, of the community, wasn't it?

A. My sole interest.

Q. That is your sole interest. That is what we may call a humanitarian interest.

A. Yes, you might.

Q. Your sole interest was to see that vitamins, this vitamin product could be sold very cheaply so that the great masses would be able to get the value of vitamins.

A. Yes. I have another reason. I was quite sure that once such a product came out and demonstrated that it would sell, it would be imitated very quickly all over the country, so the educational problem would be done.

Q. So that any product could be very easily instated.

A. I wouldn't say "very easily." With the technical knowledge the large pharmaceutical houses have, they could get out something like that.

Q. Your prime purpose was to see this product was sold very cheaply, so that the masses could improve their [534] nutrition standards?

A. Yes.

Q. Did you make that representation to Mr. Hanisch at that time?

A. Oh, of course, he knew that.

Q. He knew that at that time?

A. Of course. When he asked me if I was going to get out of it, and I told him, knowing it was obvious what my interest was.

(Testimony of Dr. Henry Borsook.)

Q. You were therefore concerned and very much interested in seeing that your purposes were accomplished? A. Yes.

Q. In getting cheap vitamins to the public?

A. Yes.

Q. Did you give any consideration at all to the—withdraw that. Were you consulted with respect to the agreement between The Vita-Food Corporation on May 5, 1941, and——

A. It was told there was an agreement, and I was assured that neither my name nor Cal Tech would be used in advertising. But otherwise I was not consulted.

Q. Weren't you concerned with the price?

A. Yes. And I disagreed with Mr. Hanisch and his advisers on the price they felt they had to charge. There were a good many discussions about that. [535]

Q. When did those discussions take place?

A. They went on from time to time. I can't remember the exact dates.

Q. It was after the agreement?

A. I can't remember that. I don't know.

Q. Did you think their prices were too high?

A. I don't wish to imply that I thought they were asking for an undue profit. I was disappointed they felt compelled to charge as much as they did.

Q. Did you know that Mr. Hanisch from May 5, 1941, to October 28, 1942, had not taken any salary from his corporation?

(Testimony of Dr. Henry Borsook.)

A. I was not—I didn't know the financial situation of either the——

Q. Did you know that that corporation sustained losses during that period?      A. No.

Q. Then why did you think his prices were too high?

A. Because I knew what the ingredients cost and I knew what their final price was, and I had had dealings with business people before. I have come to distrust statements that they are always losing money.

Q. Now, Doctor, of course the record here does show very definitely, I may state, the facts I have already stated with respect to no salary received by Mr. Hanisch [536] and no profits made by this company during that period.

A. May I interrupt there, Mr. Mackay?

Q. Yes.

A. I think Mr. Hanisch will tell you I was in a meeting with him and his advertising consultant and that I told him I didn't care to be a party to keeping advertising people going in the standard of living to which they were accustomed.

Q. Well now, of course, you knew what the products could be purchased for, and you knew the cost of them, didn't you?      A. Yes.

Q. Did you concern yourself at all with the price, the cost to The Stuart Company of these products?

A. I remember that discussion, Mr. Mackay, very well. I told Mr. Hanisch and his business adviser with him—the name I have forgotten now—I



(Testimony of Dr. Henry Borsook.)

felt that we technicians, the group of people with me, we had done our job and we had done a pretty good job and it was up to the business people to do as good a job. I didn't feel they had.

Q. Did you represent to Mr. Hanisch that he could buy this product at a price from Vita-Food for less than other products could be—similar products could be purchased on the market?

A. I did not discuss with Mr. Hanisch any of the [537] financial arrangements between him and The Vita-Food Corporation. That was none of my business.

Q. (By The Court): Dr. Borsook, what about this: How much does molasses cost? How is it sold?

A. It is sold by the barrel.

Q. How much does it cost a barrel?

A. I don't know what it costs a barrel now.

Q. How much did it cost a barrel in 1941?

A. I am sorry, I don't remember.

Q. You said you knew the cost.

A. At that time.

Q. Approximately what does molasses cost a barrel?      A. A barrel?

Q. Yes.

A. I would have to make a guess, your Honor. I would say somewhere in the neighborhood of \$10.00 a barrel.

Q. How many gallons are in a barrel?

A. I would have to guess again. Somewhere between 50 and 100.

Q. Between 50 and 100 gallons?

(Testimony of Dr. Henry Borsook.)

A. More nearly 100, I would guess.

Q. 100 gallons to a barrel? A. Yes.

Q. Four quarts to a gallon? [538]

A. Yes.

Q. Eight pints make a gallon? A. Yes.

Q. Now, in our economic system we have middlemen and—— A. Yes.

Q. And the middleman has to charge more than he pays. A. Yes.

Q. He has distributing costs, he requires a certain profit for his work. A. Yes.

Q. And he has to resell for more than he pays when he purchases the products. My question is this: It would be very important in carrying out your purposes to have a vitamin compound available to the public at a small price, low price, that the manufacturer did not charge too high a price to the distributor, isn't that true? A. Yes.

Q. That would be important? A. Yes.

Q. Now, did you say you never inquired how much Vita-Food Corporation was charging The Stuart Company for the stuff? I use that word stuff because it is short.

A. I didn't mean to imply——

Q. I wanted to have you answer the question yes or no. I say, did you testify you never inquired how much Vita-Food [539] Corporation was charging The Stuart Company for the stuff?

A. Your Honor, that was not my understanding of the question asked me at the time.

Q. Now then, I will ask you the question: Did

(Testimony of Dr. Henry Borsook.)

you know how much Vita-Food Company was charging The Stuart Company for the stuff?

A. Yes.

Q. You did? A. Yes.

Q. Did you think it was high, low or medium?

A. I thought it was medium.

Q. Were you disappointed at the price they were charging The Stuart Company?

A. I thought what they were charging The Stuart Company was a medium price.

Q. Were you disappointed at the price they were charging? A. Yes, a little.

Q. You were disappointed with them, too?

A. Yes, I thought the final retail price was much greater than I had expected it would be.

Q. (By Mr. Mackay): Were you ever consulted subsequent to that time with respect to raising the retail price? A. There were discussions. [540]

Q. Did you ever allow it or approve the raising of the price to Mr. Hanisch?

A. I had no opportunity to allow or not allow.

Q. Were you consulted about it?

A. Yes. And I expressed my opinion; I had no veto power.

Q. Didn't Mr. Lauerhass come to you for permission to raise?

A. Not for permission; I didn't have permission to give.

Mr. Mackay: May I call for the letter of January 20, 1941?

The Court: What letter is that?

(Testimony of Dr. Henry Borsook.)

The Witness: That is the one——

The Court: Would you like a short recess?

Mr. Maiden: Yes. Or take our lunch recess.

The Witness: I would like to go on, your Honor.

The Court: I was thinking we ought to keep on with Dr. Borsook, so he won't have to come back.

(Short recess taken.)

The Court: Proceed, Mr. Mackay.

Q. (By Mr. Mackay): I call your attention to Exhibit L. I think you have it in your hand, don't you?

A. Yes. [541]

Q. Which is the letter to Charley King from Mr. M. H. Lewis, Treasurer of The Vita-Food Corporation.

A. Yes.

Q. And particularly to the fourth paragraph which says, "We are in a very solvent position today, and intend to remain so. Our entire accounts payable are less than \$100.00. We buy for cash and sell for cash. Your experience with us, and the fact that Dr. Borsook has gone into our situation thoroughly, and has entrusted us with great responsibility—both financial and ethical—should indicate the extent of our responsibilities."

Is that statement true, in your opinion?

A. The statement is true—now, which statement do you refer to?

Q. The one I read.

A. There are a number of statements in that paragraph.

Q. The one I read. "Your experience with us, and the fact that Dr. Borsook has gone into our

(Testimony of Dr. Henry Borsook.)

situation thoroughly, and has entrusted us with great responsibility—both financial and ethical—should indicate the extent of our responsibilities.”

A. Yes.

Q. You had entrusted both?

A. Especially the ethical.

Q. And financial? [542]

A. That was his risk.

Q. You were interested in getting the vitamins?

A. Yes, to get them as cheaply as possible.

Q. Therefore you were interested very materially with the cost of production? A. Yes.

Q. Did you concern yourself at all with the prices which The Vita-Food Corporation was obligated to pay under this contract of May 5, 1941?

A. With the Vita-Food Corporation——

Q. I mean the Vita-Food Corporation sell to The Stuart Company under the agreement of May 5, 1941. A. I was told what the price was.

Q. Had you gotten the contract?

A. No, not to my knowledge.

Q. He had told you the prices?

A. I was told what they were, yes.

Q. Had you checked those prices?

A. Only to the extent of asking Mr. Lewis to give me his breakdown by which he arrived at that price. And I must confess, as I told the Court, I was disappointed it cost that much to do business.

Q. You stated a while ago that you told Mr. Hanisch that this product could be produced and



(Testimony of Dr. Henry Borsook.)

sold much cheaper than any other product, didn't you? [543]

A. That was true, but was still too dear by my notions, of what I had hoped it would be. It was still then the cheapest and best product on the market.

Q. Did you ever ask Mr. Lewis to reduce the cost of the product?

A. I could not ask him to do that. We discussed it many times, to see how it might be done.

Q. He was a good friend of yours, wasn't he?

A. Yes, but I couldn't ask a man to deliberately lose money.

Q. Do you know whether he was losing money?

A. I don't know.

Q. Do you know whether he was making money?

A. I don't know.

Q. You didn't go into the question to determine whether the company was making money?

A. No. I was not a stockholder and I was in no way——

Q. Had you visited Mr. Lewis at his home several times?      A. Many times.

Q. Where did he live prior to 1941, do you remember?

A. He lived in two places at different times. He lived once—I *should* take you there, I don't remember the street. It was in South Pasadena.

Q. It was a rather moderate home? [544]

A. One of them was. The other one is an elaborate home.

(Testimony of Dr. Henry Borsook.)

Q. Where is the elaborate home?

A. It was the top of a hill off Monterey Avenue.

Q. It was in Altadena?

A. No, Monterey Avenue. That as also in South Pasadena.

Q. Now, if you had known this product could have been purchased for at least 30 cents less per unit, would, in your opinion, your purpose have been better served if somebody else had manufactured it?

A. Yes, manufactured as good a product for 30 cents less, they certainly would have been better served.

Q. Didn't you know that the product could be manufactured much less than that?

A. It was not being done. They were much dearer.

Q. Vitamins weren't very expensive?

A. They were expensive then, compared to now. It was after that time that vitamins decreased very rapidly.

Q. When did they decrease?

A. In the years after 1941, during the middle and later war years.

Q. 1945 and 1946? A. About 1944, 1943.

Q. Prices kept up about the same from 1941 to 1945? [545]

A. No, they went down through all of 1941. Let me give you an example of what my recollection was. Vitamin B1 was down to approximately 20

(Testimony of Dr. Henry Borsook.)

cents. Vitamin B1 was about \$1.50 a gram. Ribonflavin was much dearer than that.

By the end of the war Vitamin B1 was down to approximately 20 cents a gram and ribonflavin was about 40 cents a gram. There were steps by reduction. The greater changes occurred, not during 1941, as to my recollection of those figures.

Q. Did you concern yourself as to whether or not the prices reduced to The Stuart Company because of the decreases in price?

A. When I was consulted, associated as a consultant, there were no considerable reductions in the price of vitamins, and there was no reduction in the price of Stuart formula.

Q. Was this product a natural product, as the Galen B rice product?

A. Yes, but it is a question that has no meaning scientifically.

Q. Was it a natural product?

A. Yes, in part.

Q. And part scientific? A. Yes.

Q. Did you approve the label? [546]

A. Yes.

Q. I call your attention to Exhibit 9, which is the label and which you approved, and that states, "An aqueous concentrate derived from natural food sources, fortified."

A. Yes. Yes, I approved that.

Q. Now, do you mean to tell the Court that this was a perfected and satisfactory product when you

(Testimony of Dr. Henry Borsook.)

knew that molasses formed gas and might cause illness?

A. I knew it would form gas. It didn't happen very often. It certainly would not cause illness.

Q. Could it cause indigestion and distress?

A. No. The gas formation is something that occurs very slowly in the bottle and accumulates over a month or two months.

Q. Suppose the product were out a year.

A. The only harm that would be done would be to mess up a druggist's shelves. It couldn't hurt anybody, couldn't possibly hurt anybody.

Q. But you did, I think I understood you to say, on direct examination, represent that was a stable product and a perfected product at that time.

A. I did not use the word "perfected" to my recollection. It was a usable product.

Q. Commercial product? [547]

A. Yes, it was a commercial product.

Mr. Mackay: I think that is all.

### Redirect Examination

By Mr. Maiden:

Q. Dr. Borsook, just a moment. Mr. Mackay called your attention to the statement, "An aqueous concentrate derived from natural food sources, fortified." A. Yes.

Q. And he asked you if you approved that label.

A. Yes.

Q. And you said you did? A. Yes.

(Testimony of Dr. Henry Borsook.)

Q. Was there anything wrong with your approving that?

A. No, it was perfectly proper.

Q. Does that represent any misrepresentation at all?

A. None whatever.

Mr. Maiden: That is all.

Mr. Mackay: That is all.

Q. (By The Court): I wanted to ask you one more question. You knew what the formula was in 1941 and 1942?

A. Yes.

Q. The formula being used by Vita-Food Corporation?

A. Yes.

Q. You say that if you add water to molasses that [548] fermentation may happen, if you add enough water.

A. Yes.

Q. In the formula that was being used, how concentrated was the molasses?

A. Straight molasses in which no fermentation could occur.

Q. It was straight molasses?

A. Yes.

Q. Is straight molasses very sweet?

A. Yes.

Q. Now, it has been testified here that there was some complaint about the flavor of the product. People found it very sweet. That testimony would be true, then, wouldn't it, if they used straight **molasses**?

A. Your Honor, there are complaints of the flavor of every conceivable food product.

Q. I am not asking you to discuss it. I am asking you whether that would be a true complaint if



(Testimony of Dr. Henry Borsook.)

someone said, "Well, it was very sweet." That was true, it was sweet, wasn't it?

A. I should say that was a personal complaint, not a true complaint. There is a distinction.

Q. Molasses as sweet?

A. Yes, but people vary, whether they like it or not.

Q. People have a different tolerance for sweetness, [549] that is what you mean to say?

A. Yes, I would say most users did not object.

The Court: Are there any other questions?

Mr. Mackay: There is one more question I would like to ask.

#### Recross-Examination

By Mr. Mackay:

Q. Dr. Borsook, I understood on direct examination that you stated you were anxious to get this on the market at a low price so that when it was on the market others could imitate it rather quickly and make a wide distribution, so it would increase the nutritional value.

A. I hope I——

Q. I mean increase the nutrition standard.

A. I said I expected that the large distributors, when they saw this product was selling and at a price which was much lower than theirs, they would no doubt, out of sheer reasons of competition, seek to get a similar product. And I was quite sure the large pharmaceutical houses had technical people who could do it.

Q. They could have taken the label there and easily duplicated it?

(Testimony of Dr. Henry Borsook.)

A. No, it wasn't that easy. For instance, for some years after this product was gotten out there was not another product on the market, to my knowledge, in which [550] the Vitamin A or the Vitamin B1 was as stable. That was a secret technical process.

Q. Were you familiar with the controversy that the Vita-Food got into with the Rite Laboratories?

A. I don't remember. Certainly, I had nothing to do with it especially.

Q. You knew they were putting out a very similar product?

A. I doubt it. It may have been mentioned to me once, possibly in a casual conversation, but that wasn't the sort of thing——

Q. Was it a molasses base?

A. I don't know. I certainly didn't see it. I wasn't consulted in any steps that were taken.

Mr. Mackay: That is all.

Mr. Maiden: That is all.

The Court: Now, the witness may be excused?

Mr. Mackay: Yes.

The Court: You need not return this afternoon.

(Witness excused.)

The Court: We will recess until 10 after 2:00. Do you think that will be enough time?

Mr. Mackay: That will be all right with us.

The Court: All right.

(Whereupon, at 12:50 p.m., a recess was taken until 2:00 p.m. of the same day.) [551]

Afternoon Session—2:20 P.M.

Mr. Maiden: May it please the Court, at the noon recess my attention was called to the fact I had failed to ask Mr. Wiseman——

The Court: Do you want him to take the stand again?

Mr. Maiden: Yes.

The Court: Will you take the stand, Mr. Wiseman?

Whereupon,

OSCAR WISEMAN

recalled as a witness for and on behalf of the Respondent, having been previously duly sworn, was examined and testified further as follows:

Direct Examination

By Mr. Maiden:

Q. Will you state to the Court the conversation that took place between you and Mr. Dunlap and Mr. Hanisch on the nights of November 27th and 28th at the time of the execution of that final agreement, in detail?

A. Well, I first talked with Mr. Dunlap at the hotel from about 6:00 to 8:30. Shall I relate first——

Q. Please do.

A. Mr. Dunlap had called me and told me he

(Testimony of Oscar Wiseman.)

wanted to clear up some pending orders and give me the payments required, and so on. I said, "All right." [552]

And he came up to the hotel. We straightened that out rather quickly. Then he told me that he had talked further to Mr. Hanisch and he had seen the complaint and the restraining order I had filed and caused to be served on a lot of people, as he put it. And after talking it over with Mr. Hanisch they were prepared to make a better offer.

I said, "Well, I would be glad to hear about any better offer." And we proceeded to discuss quite a few things.

Mr. Dunlap had a copy of the complaint and the restraining order in the injunction suit in his pocket, and he brought it out.

He asked me who Mr. Fulwider was. I told him he was a man that specialized in trade-mark and patent cases. He was associated with me. It was important to me, I wanted Mr. Fulwider to check my work, so what I did would be done with care. That his work was incidental.

He told me that it was a damn good complaint. I thanked him for that. And he asked me why I served so many people. I told him that I considered it good practice to serve the principal officers of a corporation in a trade-mark infringement case.

He wanted to know what I intended by the injunction suit. I told him simply we wanted to enjoin them from [553] doing the things that he had threatened they might do, such as use the name in

(Testimony of Oscar Wiseman.)

disregard of our trademark registration and our title.

And he asked me what I thought of their acceptance of our cancellation, and his rescision which he had served upon us.

I told him that I thought the answer to that was contained in the way I had set up in the complaint, that we had accepted their view that it would be a total cancellation in that I had pleaded, I believe, both their acknowledgment of our notice of cancellation and their notice of rescision. So far as we were concerned, the matter was ended.

Q. What did you mean about the "matter was ended"?

A. Well, that the contract was terminated for all purposes, as far as I viewed it. And in the course of that conversation he told me that he could offer \$150,000.00 upon certain terms and conditions.

I told him that that wasn't sufficient. And he started to recite some things about fraud and other things that we discussed in some of our earlier meetings. I told him that I was not interested in discussing any of those things, that he had made threats in those regards at earlier meetings. We answered that by filing our lawsuit, standing upon our ownership and asking the court to protect [554] it. That if he wanted to discuss those matters, those matters we could discuss before a Court. That if he wanted to buy the trade-mark we would discuss that. We would not discuss these other matters.



(Testimony of Oscar Wiseman.)

Anyway, I finally told him that he could possibly do better than the \$150,000.00 and if he would like, to get Mr. Hanisch on the phone and get his views on it and then maybe we could discuss the matter further. I told him he could get in touch with me in a day or so. He said, "Well, I might be able to get hold of him this evening." That this case had been pressing upon him and he would like to get it over with. And would I stand by. I said all right.

He called Mr. Hanisch and he came back and told me that he thought that they could come a lot closer to our figure and that if I would go with him to his office we could discuss it a little further, and Mr. Hanisch would be able to join us and Mr. Hanisch could tell me directly how much he would pay.

We did. We went to Mr. Dunlap's office then in the First Trust and Savings Bank Building, I believe, in Pasadena. We discussed it a little—quite a bit further. I think Mr. Hanisch came in in about an hour or so after we were there.

Q. When you said that he told you what he thought he could pay, pay for what? [555]

A. For the trade-mark.

Q. Go ahead.

A. Before Mr. Hanisch arrived he wanted to know what we really wanted, what was our lowest figure. I told him it was \$250,000.00. I was prepared to accept that amount and I didn't like the idea of any payments. From what I understood about the financial picture of the company and Mr.

(Testimony of Oscar Wiseman.)

Hanisch there was no reason in my mind why it shouldn't be a cash deal.

He told me that he thought he could come up quite a bit. He wanted me to wait until Mr. Hanisch got there, but I didn't think he would go that high.

Then he outlined that Mr. Hanisch did not want to pay the money out directly, that he already had advanced some \$50,000.00 to the company, and it was a rather difficult matter from a tax standpoint to get it back. He wouldn't want to lay out another much larger substantial sum and then have that same problem again.

We had discussed the payment of a fixed amount on the amount that we sold. Mr. Dunlap wanted—he said, “We will pay you the quarter of a million dollars on a straight royalty basis, that is, on a percentage of our profits.”

I told him we weren't interested in any deal other than a fixed sum deal or one that could be computed [556] into a fixed and definite amount. We wanted to sell for a definite price and we were not interested in any royalty agreement.

Q. Sell what, Mr. Wiseman?

A. The trade-mark. He said, “Well, we might be able to work it out with some cash down and the balance paid on a 7½ cent rate, with adequate guarantees to you it would be fully paid or you would get it back.”

Q. Get what back, the trade-mark?

A. The trade-mark. Then he brought up the tax question. He said that if he was assured that they

(Testimony of Oscar Wiseman.)

could handle it as an expense of the business, why, he thought Mr. Hanisch would be willing to pay a good deal more for it.

I told him that the figure we had stated, or that I had stated was on the basis of an outright sale. We had in mind also the tax questions and we felt we would make a capital sale or not at all.

Q. Mr. Hanisch finally arrived?

A. Mr. Hanisch finally arrived and I think he started off the conversation by saying, "Why in the hell did you serve us on Thanksgiving?"

And I answered by saying, "Why in the hell did you give us 48-hour ultimatums?"

There were pleasantries for quite a little while. Mr. Hanisch thought I was a fine fellow and apparently knew [557] what I was doing, and it was a pleasure to deal with me instead of that blank, blank Lewis.

He asked me what I wanted. I told him he wanted a quarter of a million dollars, wanted a check for it.

And he told me that he wanted any payments made through the company and not through himself, that he wanted to get it back some day and that that was the best way for him to get it back.

He said, "Unless it would be a royalty basis we can't pay you that much."

After considerable discussion they asked me whether or not I would take \$200,000.00. I told them I thought he stopped at \$250,000.00, that I would have to think it over and I would like to pos-

(Testimony of Oscar Wiseman.)

sibly call somebody connected with my client; other than myself, to get their views on it.

At about 3:00 o'clock in the morning I went out of the building and across the street, I think, in a parking lot or some place, and found a telephone. I called Mr. Lewis on the telephone and told him we had what appeared to be a definite offer of \$200,000.00.

Q. Definite offer as to what?

Mr. Mackay: I object to that as pure hearsay.

Mr. Maiden: I think Mr. Wiseman has a perfect right to tell the Court what he told Mr. Lewis on the [558] telephone. Mr. Lewis is here and is going to be a witness in the case.

Mr. Mackay: Conversation certainly between Mr. Wiseman——

Mr. Maiden: If your Honor please, this is a part of the *res gestae* and the hearsay rule wouldn't apply.

Mr. Mackay: If your Honor please, the conversation, if the witness were permitted and we made no objection, subject of the conversation at the meetings at which Mr. Hanisch and Mr. Wiseman were, when they were negotiating, but certainly a conversation with this witness and Mr. Lewis at this time is entirely incompetent, irrelevant and immaterial.

The Court: Objection sustained.

Q. (By Mr. Maiden): Now, Mr. Wiseman, just skip that point. If there is anything else now that was said between you and Mr. Dunlap and Mr.



(Testimony of Oscar Wiseman.)

Hanisch before the execution of this contract that you haven't told us about, please do so.

A. After I used the telephone, I went back and told Mr. Hanisch we were—we would take \$200,000.00, provided we could have positive assurance from him it would be fully paid; and whereupon Mr. Dunlap said, "Well," he said, "let's see if we can't reduce it to typing." [559]

Mr. Dunlap put some paper in the typewriter and went right to work. He apparently had a bad carbon in the typewriter or something, and after doing a couple of pages—I told him I didn't like the language used and besides it was a very——

Q. You are referring to Respondent's Exhibit U?

A. Yes. He agreed and said, "Well, sure, that looks pretty bad." He said, "I will try it again and you tell me what you don't like and I will try to get them out of the draft."

I did, and he went to work on the second draft which is apparently Exhibit T.

Q. Respondent's Exhibit T?

A. Respondent's Exhibit T. After he got through with that we discussed that quite thoroughly and I objected to it in a number of particulars. I particularly objected to his mentioning the word "royalty" in the first draft, and the way he had treated the delayed payments.

Q. Mr. Wiseman, at that point, is there any difference between the use of the word "royalty" in that first paragraph, or, rather, that first draft, and



(Testimony of Oscar Wiseman.)

the use of the word "royalty" in the final draft you signed?      A. Yes.

Q. Will you explain what it is?

A. There is a decided difference in [560] Paragraph 4. The first draft, it is referred to as "royalties." I didn't like that terminology. In the second draft it was referred to as "royalty" and additional consideration. I didn't like that, either. In the final draft, as it reads now, it is to be paid on a royalty basis and any additional amount, and so forth. We discussed the matter of the terminology of quitclaim transfer which, I believe, I have already testified thoroughly about.

There was one other thing I recall that was discussed in the early part of the meeting, after Mr. Hanisch had been there a very short time. He advised me again he had lost \$60,000.00 in the company and that really all he wanted was a chance to get even.

I told him on that he had about \$45,000.00 or \$50,000.00 worth of stock on hand, that he had some office equipment; that is credit. And he had stationery and so on, and that I thought if he wanted it I could get a check for the \$60,000.00 if he would turn the company over to us.

Q. Turn what company over?

A. The Stuart Company. He wasn't interested in that. We got back to the point where he wanted to buy us out. He started to mention at one time that he would like to buy the plant. I told him that

(Testimony of Oscar Wiseman.)

was not for sale. That the only thing we would have for sale, if at all, would be the prestige. [561]

In the earlier part of the conversation, in the pleasantries, he told me he had been pleased with the way I handled the Rite case and the way I served the Food and Drug question as to the new plant. And also the manner in which I had handled spoilage of bottles that occurred in the summer of '42.

He said he liked doing business with me and if he had been doing business with me right along the companies would probably not have had a falling out.

I told him that was unfortunate, I knew he and Mr. Lewis were very positive gentlemen, that they had had very considerable differences, and I told him that I had prepared five or six or seven drafts of a modification which I hadn't discussed with him or his lawyers, but I knew he had gone over it.

"Apparently efforts between you and Lewis to settle differences between these companies never got any place."

I said, "It is my desire to keep personalities out of this and to settle it on a sensible basis, if at all."

He also asked me during the conversation, in the early part of it, what the termination was.

We said we acquiesced in a final cancellation, we, in effect, stated in our complaint.

He said, "I couldn't rely on that." He said, [562]  
"That guy Lewis is liable to pull anything. You

(Testimony of Oscar Wiseman.)

might tell me that. I wouldn't be satisfied to leave it stand that way."

I told him that all he wanted was a release, freedom, it was all right providing they disclaim what I consider to be fictitious claims.

Q. Did you offer him such a release?

A. I offered that several times. I offered it in the Sunday meeting with Mr. Dunlap and Mr. Hanisch. I told Mr. Dunlap that in one of our earlier meetings, which I mentioned again during the final meeting.

Q. That was a release from the contract of May 5, 1941?      A. That is right.

Q. On cross-examination Mr. Mackay showed you an exhibit in which we have these labels set out. I don't know what exhibit that is.

Mr. Maiden: What is that, Mr. Mackay?

Mr. Mackay: Mr. Dunlap 9.

Q. (By Mr. Maiden): He asked you in connection with the application that you had made for federal registration for this trade-mark for "the Stuart formula" whether or not the registration would have been granted if you had presented the entire label. You stated in your opinion it would not [563] have been.

Now, I would like to have you explain just what you meant by that answer.

Mr. Mackay: Pardon me. May I have the question?

(The question was read.)

The Witness: I don't think——

(Testimony of Oscar Wiseman.)

Mr. Mackay: I don't think he stated in his opinion it would have been.

The Witness: I stated it would not have been.

Q. (By Mr. Maiden): Would you explain that, Mr. Wiseman?

A. Yes. The label contains a lot of general information that says Vitamin Complex B on it, B1 and so on.

It has recitation about one tablespoon and three teaspoons and so on on it. It has a lot of recitations which are not the subject of appropriation by trade-mark. The only thing we had the right to was the trade-mark "the Stuart formula."

We could possibly, and it had been discussed we could have copyrighted the label as a whole, but we had no right to appropriate things like Vitamin A, D and so on. We did, of course, have the right if anybody, such as the Rite Laboratories, who simulated our whole label, to assert our common law rights on unfair competition and unfair use. [564]

Q. Mr. Wiseman, was it any concern of yours at the time of the execution of this contract in November, 1942, this agreement, how The Stuart Company might treat this transaction on their records?

Mr. Mackay: I object to that, if your Honor please; entirely irrelevant, immaterial, incompetent. What concern it was of his has nothing to do with it.

The Court: The objection is sustained.

Q. (By Mr. Maiden): Was there anything said at the conference in that connection by you to Mr. Dunlap or Mr. Hanisch?



(Testimony of Oscar Wiseman.)

A. I discussed with Mr. Dunlap these tax questions rather extensively. I don't believe I related that part of the conversation. One thing that came up was I objected to the title that he put on the agreement and we had agreed to leave any title off and just have it blank as far as any designation is concerned. But when we got through with it it was on there, and I did not insist it be taken off. It was 6:00 o'clock in the morning when we finally left it on. I objected to it on the ground it was a misnomer for the agreement. But as it was merely a top designation I didn't see where it could do any particular harm.

In discussing the tax questions Mr. Dunlap at one point pulled some books off the shelf of—I [565] don't know whether it was Prentiss Hall or somebody, and tried to point out to me it would be an expenditure on their part, regardless, and I told him from the four corners of the instrument we were retaining title or would retain title upon certain contingencies. We were getting a specific price for a specific thing, a trade-mark. And I didn't see—no matter how you named it or what you did with it, it would still be the sale of a capital asset.

He wanted to use entirely different language. The royalty language he tried to use on royalty was only one example.

He tried to use quite different terminology and methods—in methods of payment, so that it would definitely be his opinion an expenditure or expense matters, so far as his clients were concerned.

I intended to, and I believe did, restrict the con-



(Testimony of Oscar Wiseman.)

tract to a simple sale upon conditions. I did tell him at that time——

The Court: Where did you restrict it to that in the contract?

The Witness: Pardon me?

The Court: Where did you do all that in that contract?

The Witness: By transferring them.

Mr. Mackay: Exhibit 12. [566]

The Court: If you had you might not have a case here.

Mr. Maiden: The language used is a compromise, your Honor.

The Court: Well, we offered the contract this morning—go ahead, Mr. Maiden.

Mr. Maiden: I believe that is all, if the Court please. You may take the witness.

### Cross-Examination

By Mr. Mackay:

Q. Mr. Wiseman, isn't it a fact when you began drafting this agreement you assisted Mr. Dunlap in drafting it?

A. No, I don't think so. I talked to him about it and he was at the typewriter—we talked as he went along somewhat.

Q. Isn't it a fact you sat there, you were there with him and you dictated to him while he was typing?

(Testimony of Oscar Wiseman.)

A. Yes, I interposed suggestions as he went along.

Q. You would say, in all fairness, both of you dictated the contract?

A. I wouldn't say that.

Q. You assisted in dictating the contract?

A. I made suggestions.

Q. You assisted in dictating part of it, didn't you?

Mr. Maiden: You don't have to agree with [567] it if it isn't so, Mr. Wiseman.

The Witness: All I can tell you is the facts. Mr. Dunlap was sitting at the typewriter typing. As we went along I would make a suggestion or two and he would ignore me or follow me as he felt like at the time, or argue with me. I certainly participated in the total language used.

Q. (By Mr. Mackay): You wouldn't deny you assisted him in dictating the terms of the contract, would you?

A. Well, I don't know what you mean. It wasn't Mr. Dunlap and I dictating to a secretary; it was Mr. Dunlap doing the physical job.

Q. He was at the typewriter and you were dictating? You understand what dictating is, don't you?

A. Yes, I understand what dictating is.

Q. You deny you assisted in dictating this contract?

A. Yes. I don't believe the contract was dictated. We discussed it and Mr. Dunlap typed it up.

(Testimony of Oscar Wiseman.)

You don't dictate to a lawyer, you dictate to a secretary.

Q. Wasn't he acting as secretary when he was there at the typewriter?

The Court: No, Mr. Wiseman, you dictate to who is taking it down. It doesn't matter whether he is a lawyer or anything else. [568]

Q. (By Mr. Mackay): Now, did you object to the first line in Paragraph 1 which says, "First Party hereby agrees to dismiss with prejudice the said action No. 482045"?

A. No, I had no objection.

Q. Did you object to the language that all parties—that "said agreement made May 5, 1941, is hereby cancelled and terminated"?

A. Are you talking about Exhibit 12?

Q. Yes.

A. All of that language I agreed to.

Q. You didn't object to that, but you did say you objected to the heading of the agreement.

A. Yes.

Q. Which says "Agreement of settlement of litigation and cancellation of contract." I will ask you to please refer to Exhibit 12. In all fairness, Mr. Wiseman, state whether or not in Paragraph 1 you didn't approve a contract and sign a contract which specifically dismissed an action and specifically terminated the agreement. I will ask you if that heading is quite descriptive of the terms of the contract, of the contents of the contract?

A. I would answer that yes, and partially no.

(Testimony of Oscar Wiseman.)

We did agree to dismiss with prejudice the pending action. We used the words of cancellation and termination, but we [569] only used those because the second part—we only used those because we wanted, or rather, Mr. Hanisch and Mr. Dunlap wanted in writing what I had said had already been effected. We had no objection to having the final language used in the writing so that going back over this transaction later it could not be argued any part of the contract was still in existence, but it had been my position at that time and still is the contract was at an end and at rest before this agreement was signed.

Q. Had they accepted that?

A. They said, "Yes, that is all right, as *far* you say it. But we don't—we wouldn't trust what Mr. blankety blank Lewis would do. Therefore, we want it in writing."

Q. Isn't it a fact, Mr. Wiseman, that Mr. Dunlap had then prepared a complaint charging fraud, and that you had a suit pending? Isn't that some of the things you were trying to settle?

A. I never saw any complaint or any pleading that Mr. Dunlap had.

Q. I am not asking if you saw it. You testified you knew he had.

A. I haven't testified. He threatened he would bring such an action. He never told me he had such an action ready.

Q. You said a moment ago in your direct examination [570] that Mr. Hanisch stated—that you

(Testimony of Oscar Wiseman.)

stated, "We ought to settle this on a sensible basis." What did you mean by settling it on a sensible basis? A. Well,—

Q. What were you trying to settle at that particular time? That is the question I am asking.

A. We were not—I was not trying to settle anything. I was there to sell a trade-mark. If incidental to that sale we settled and disposed of pending litigation or any other claims that one corporation might have against another, I was prepared to do so incident thereto.

Q. I know, but you stated a moment ago on direct examination, I think, that you were called over there and that you had many discussions and you didn't arrive at any understanding until about 3:00 o'clock.

Now, from the time you met Bob Dunlap and Mr. Hanisch, weren't you, in fact, discussing the complaint, the charges they had on them and they were discussing the charges and the countercharges and the cancellation of the contract? Is that a fact?

A. We had some discussions of that nature, yes.

Q. Just some?

A. In the early part of the meeting that I had with Mr. Dunlap at the hotel, when we first started, he started bringing those things up and I told him that I was not [571] interested in discussing those things, that I was not interested in any more ultimatums. We had answered those charges by filing an answer and his clients had been served with it and the place to discuss those was the court where



(Testimony of Oscar Wiseman.)

that action was pending. The only thing we were interested in discussing was the sale of the trade-mark.

Q. Isn't it a fact that you had Mr. Dunlap and Mr. Hanisch, on the one side, making certain contentions with respect to the contract of May 5, 1941, and that they were discussing their notice of rescission and that they were discussing the—your notice of rescission and your complaint?

A. I related the conversations I had with them as to those things. Would you like to have me restate it?

Q. No. I think it is not necessary. You want this Court to believe, do you, Mr. Wiseman, that the only thing that you did in the conversations here with Mr. Dunlap and Mr. Hanisch was to arrive at a purchase price for the sale of a trade-mark? Is that all you want this Court to believe?

The Witness: Would you read the question, please?

(The question was read.)

The Witness: No, it isn't.

Q. (By Mr. Mackay): What other discussions did you have then?

A. We have many discussions. The conversations lasted for hours upon hours, but the principal thing we [572] discussed was the sale of the trade-mark. We discussed personalities and taxes and a lot of things. The only thing of any consequence we discussed was the price and terms of sale of the

(Testimony of Oscar Wiseman.)

trade-mark. We felt we were entitled to a general release and they were entitled to it. [573]

Q. What time did you start typing?

A. I didn't start typing. Mr. Dunlap did the typing. I think he started around 3:00 o'clock in the morning.

Q. It took you from 3:00 to 6:00 o'clock for you and Mr. Dunlap working on this contract together to draft a contract? A. Yes.

Q. You intended that to mean what it said?

A. The final agreement?

Q. Yes. A. Yes.

Mr. Mackay: That is all.

Mr. Maiden: Just a second. I want to ask one question here.

### Redirect Examination

By Mr. Maiden:

Q. Mr. Wiseman, I want to know whether or not you were asking Mr. Hanisch or Mr. Dunlap for any money for a release from the contract of May 15, 1941?

A. When we discussed that, or when it was brought up I did not ask nor was it our intention, if they wanted a general release, to ask for any money.

Q. Had that already been made clear?

A. Yes, that was quite clear. We said, "We will call it quits and make no claim against you at all. We have already [574] accepted your acknowledgment and the terms of your acknowledgment of our

(Testimony of Oscar Wiseman.)

cancellation and your rescision. The contract had ended and we will let it stand and we will give you a general release, providing you disclaim in writing to us any claims that you seem to have asserted recently to the trade-mark."

Mr. Maiden: That is all.

Mr. Mackay: May I ask one further question?

### Recross-Examination

By Mr. Mackay:

Q. I call your attention, Mr. Wiseman, to the label which is on Exhibit 9, and I ask you if that doesn't say "The Stuart Company, Sole Distributor, Pasadena, California"? A. Yes, it does.

Q. You knew then that The Stuart Company had been the sole distributor of these products?

A. Yes.

Q. When you filed your application?

A. Yes; The Stuart Formula products.

Q. Why did you tell the United States Patent Office that you had sold those goods at Vita-Food Company under its name?

A. For two reasons, Mr. Mackay. Number 1, The Stuart Company was the agent of The Vita-Food Company, and the sales it made were in effect sales by The Vita-Food Corporation. [575] And I believe that that is correct under trade-mark law, that interpretation is accepted.

Secondly, in making that amendment, as I related this morning, I inquired and saw invoices and cor-

(Testimony of Oscar Wiseman.)

respondence relating to some pilot shipments of this product in interstate commerce, one of which I recall was a shipment by mail to Chicago.

Q. Just a pilot shipment. Let me ask you this: Do you mean to tell this Court in your opinion the agreement—under the agreement of May 5, 1941, The Stuart Company is the agent of The Vita-Food Corporation?

A. I would say they are a selling agent for The Vita-Food Company, exclusive selling agent for The Vita-Food Company, under that contract.

Mr. Mackay: That is all.

Mr. Maiden: That is all.

The Witness: May I be excused?

The Court: I want you to stay until Mr. Lewis is finished. You may step down.

(Witness excused.)

Mr. Maiden: Mr. Lewis, will you take the [576] stand?

Whereupon,

MAXWELL H. LEWIS

called as a witness for and on behalf of the Respondent, having been first duly sworn, was examined and testified as follows:

The Clerk: State your name, please, Mr. Witness.

The Witness: Maxwell H. Lewis.

Direct Examination

By Mr. Maiden:

Q. Mr. Lewis, what is your connection with The Vita-Food Corporation?

A. I am managing director.

Q. What was your connection with The Vita-Food Corporation on May 5, 1941?

A. Managing director.

Q. When had The Vita-Food Corporation been organized?

A. The latter part of November in 1940.

Q. For what purpose was it organized?

A. Among other things, to develop and make and sell vitamin products.

Q. Now, Mr. Lewis, at the time of the organization of Vita-Food Corporation, were you in possession of a process whereby you could manufacture vitamin products?           A. Yes.



(Testimony of Maxwell H. Lewis.)

Q. Where had you obtained that process? [577]

A. From Dr. Borsook.

Q. Is that the Dr. Borsook that testified this morning?

A. Of the California Institute of Technology, yes.

Q. Now, Mr. Lewis, when did you first meet Mr. Hanisch? A. In December of 1940.

Q. Under what circumstances?

A. I was introduced to him after four or five requests by Charles King of Pasadena.

Q. What was the nature of your discussion when you did meet him?

A. His availability and desire to make a national distribution of vitamin products.

Q. Now, Mr. Lewis, did you have anything to do personally with the creation of the name "the Stuart formula"? A. I did.

Q. Just what contribution did you make?

A. I would say most of it.

Q. Upon what basis do you lay that claim?

A. Shall I go into detail?

Q. Yes.

A. Mr. Hanisch and I had discussed and some of Mr. Hanisch's associates the names to be used for the ethical drugstore item and the grocery store item. Mr. Hanisch's principal advisor on marketing was Mr. William Pringle of Lord & Thomas. It was Mr. Pringle's urge and recommendation [578] to Mr. Hanisch that the company be called the

(Testimony of Maxwell H. Lewis.)

M. H. Lewis Company of Pasadena, and that the product be called Lewis Concentrate.

He brought a label printed to the meeting at Mr. Hanisch's house, making that his final recommendation. Theretofore I had been urging Mr. Hanisch to name the two companies after his two sons. At this meeting I again went into the situation and told him I felt very honored they would consent to name it the M. H. Lewis Company, that I felt this was going to be a very big pharmaceutical house and Mrs. Lewis and I had no children and that he had two growing boys and wanted a definite interest here in the west and that it would be best to use the companies represented by his two sons' first names.

He finally agreed that the drug item would be The Stuart Company and that the grocery store item would be the Shaler Company. We believed at that time the Shaler distribution would be the biggest, and it was named after the oldest son.

The problem then was up in the air what to do with the name Stuart. We all searched our brain as to what to do with that, to make it an attractive marketable item.

I believe I sent a list of names over at one time to Mr. Pringle's office, none of which I was particularly happy with, but they were random [579] thinking.

One night, the day before Mr. Hanisch and Dr. Borsook and myself were to go on a trip to Fort MacArthur to meet the medical director in charge—late in the night the word "formula" after Stuart

(Testimony of Maxwell H. Lewis.)

came to me. Mr. Hanisch and Dr. Borsook and I were driving possibly 10 or 15 miles from Pasadena and the discussion came up again, and I said, "Arthur, I got it." And I told him the word. He stopped the car and shook hands and said, "That is it." That was the birth of "Stuart formula."

Q. Mr. Lewis, I called your attention to the fact in the agreement of May 5, 1941, it is provided that the trade-name Stuart formula was to be and to remain the property of The Vita-Food Corporation. Will you explain to the Court why that provision was put into the contract?

A. To protect The Vita-Food Corporation and its property.

Q. Would The Vita-Food Corporation have signed that agreement unless that provision had been in it?

A. Under no circumstances.

Q. Now, Mr. Lewis, did The Stuart Company ever meet its quota requirements under that contract?

A. I think not.

Q. Did The Vita-Food Company waive those restrictions?

A. From time to time.

Q. Why were they waived? [580]

A. On the plea of The Stuart Company that they couldn't meet them, that they felt a need of security, in having a formal waiver and in the hopes that such a waiver would encourage them to proceed and show good faith on the part of The Vita-Food Corporation.

Q. Now, Mr. Lewis, did Mr. Hanisch express any dissatisfaction to you with respect to the restrictive-

(Testimony of Maxwell H. Lewis.)

ness on The Stuart Company of the May 5, 1941, contract?      A. Yes.

Q. On more than one occasion?      A. Yes.

Q. In a brief sort of way tell us just what complaints he made.

A. As to the restrictions of the May 5th contract?

Q. That is right. Any complaints he had with respect to that contract.

A. In 1941, I believe, there were a very few complaints about the restrictions of the contract, except those relating to selling price. Early in the campaign of the test periods established by Mr. Hanisch, he and his advisors and I sat in on some of those discussions; felt that the spread between the cost and the selling price wasn't sufficient to sustain a campaign. My position in that respect was that if the campaign were large enough and the unit of sales and volume increased enough that the spread was sufficient. It became a [581] matter of pulling and pushing as between us and Mr. Hanisch, to induce a large volume operation. Mr. Hanisch, wishing a smaller operation and a larger unit of spread.

We yielded several times in 1941 in small price rises; I think 5 and 10 cents. I can't recall for the moment whether the larger rises in price came later, but I think they did early in 1942. I can't recall Mr. Hanisch complaining of anything of the restrictive nature as to the contract, other than that until late in '41 or the early part of '42, when he expressed a general dissatisfaction and an unhappiness about



(Testimony of Maxwell H. Lewis.)

being in the game. His expressions became more frequent and my reactions to them were that he was doing an insufficient volume job of promotion. Does that answer your question?

Q. Yes. Now, did you have any discussions with Mr. Hanisch in 1941 or 1942 relating to the ownership of the formula? A. Yes.

Q. The trade-mark? A. Yes.

Q. Will you tell the Court what those conversations were?

The Court: And what time they took place. You can add that to your question, Mr. Maiden.

The Witness: I am certain that in the late [582] spring of '42—but I can't be sure—there wasn't some restrictiveness shown in the latter part of '41. I am not certain of the spring of '42. Mr. Hanisch suggested that he be encouraged in a wider promotion program by some share in the ownership of "the Stuart formula" trade-mark.

Q. What was your reaction to that, Mr. Lewis?

A. My initial reaction was one of resentment, that Mr. Hanisch was asking to share a property he didn't own and had no right to.

Mr. Hanisch agreed to that in the discussion, but he felt that if he were going to create a large pharmaceutical house he wanted to have a share in the ownership of the trade-name.

I told him he would have to earn it. He asked in what way. I told him I thought I could recommend to the board a modification of the Vita-Food contract whereby under certain conditions of sale,



(Testimony of Maxwell H. Lewis.)

over a specified period of time, he could get a 50 per cent undivided ownership in the trade-mark, but that he had to sustain his quota sales to keep it. That was, I think, one of the final drafts of a modification contract, and it was unsatisfactory to Mr. Hanisch.

Q. You mean following this conversation with Mr. Hanisch you drew up a proposed reversion of the May 5, 1941, contract?

A. I believe we drew up quite a number of [583] them.

Q. I hand you here a document that is entitled, "Agreement." It is dated the 10th day of August, 1942, and to run between The Vita-Food Corporation and The Stuart Company. I will ask you if that is one of the proposed revisions of the May 5th contract? A. I believe it is.

Q. Who drafted that agreement?

A. Without going through it entirely, I believe we did, The Vita-Food Corporation.

Q. Was that agreement submitted to Mr. Hanisch? A. Yes.

Q. Does this agreement say anything about The Stuart Company becoming a part owner of the formula? A. Yes, it does.

Q. Would you locate the place? A. Yes.

Q. Will you read that provision?

A. It is paragraph 8, subdivision (a) on page 8.

The Court: Just a minute, please. Was this proposed draft shown to Mr. Hanisch?

The Witness: Yes.

(Testimony of Maxwell H. Lewis.)

Mr. Maiden: He said it was.

The Court: All right.

The Witness: Shall I proceed?

The Court: Yes. [584]

The Witness (Reading):

“Any and all trade-marks, trade-names, copyrights, and labels, under which the vitamin concentrates herein specifically described are packaged, sold or distributed, and any other products manufactured by First Party which may be hereafter marked or distributed by Second Party in pursuance of this agreement and any amendments or supplements thereof, shall at all times be and remain the sole and exclusive property of First Party and the right or rights of Second Party to distribute and/or market or offer for sale such products under said trade-marks, trade names, copyrights, or labels shall continue only so long as this agreement remains in full force and effect and so long as Second Party is not in default hereunder; provided, further, however, Second Party shall be the owner of an undivided one-half interest in and to ‘the Stuart formula’ trade-mark, when and if its purchases for twelve consecutive calendar months reach not less than thirty thousand units per calendar month for three calendar months, or upon the bankruptcy or insolvency of Second Party, all interests of Second Party in and to said trade-

(Testimony of Maxwell H. Lewis.)

mark shall revert to First Party. Such acquisition of said interest in said trade-mark is to give Second Party additional security for its use of said trade-mark and in accordance with this agreement with regard to the required additional volume reached and maintained. Upon such acquisition of said interest said trade-mark shall remain under [585] the control of First Party for the purposes of this agreement and neither party while such ownership is joint may sell, hypothecate, transfer, assign, encumber or otherwise use or dispose of said trade-mark, or any interest therein, except in the fulfillment of this agreement. Upon or during such acquisition by Second Party the prices herein provided shall not thereby be affected nor shall Second Party be otherwise entitled to compensation therefor from First Party except that the position of Second Party may thereby be more secure. Upon the termination of this agreement for any reason, all interests in said trade-mark shall revert to First Party subject to the provisions of paragraph 8(b) hereof."

The Court: Mr. Maiden, do you want any more of this read?

Mr. Maiden: I don't think so, your Honor.

The Court: If you are going to have part of that draft in the record I shall ask you to put the whole thing in. I have always been very much concerned about having things taken out of text.

(Testimony of Maxwell H. Lewis.)

Mr. Maiden: I shall, your Honor. I shall do that. I might as well do it at this time. If the Court please, I would like to now offer in evidence as Respondent's next exhibit, the document identified.

The Clerk: W.

The Court: Do you have any objection, Mr. Mackay? [586]

Mr. Mackay: No, there is no objection.

The Court: It is received in evidence as Exhibit W.

(The document above referred to was received in evidence and marked Respondent's Exhibit W.)

Q. (By Mr. Maiden): Now, Mr. Lewis, I believe you stated that that agreement was turned over by you to Mr. Hanisch for his approval?

A. Yes.

Q. Did he accept or reject it?

A. He rejected it.

Q. Why did he reject it?

Mr. Mackay: I object to that as calling for a conclusion.

Q. (By Mr. Maiden): Did he attempt——

Mr. Mackay: Wait a minute.

The Court: Objection sustained.

Q. (By Mr. Maiden): Did Mr. Hanisch tell you at the time he rejected the agreement why he rejected it? A. Yes.

Q. What did he tell you in that respect?

(Testimony of Maxwell H. Lewis.)

A. He told me—he was reading from a list of 21 famous demands—that he demanded ownership in fee simple to a half [587] interest, without condition. And that unless he got it he would not promote widely any more than he had then the sale of the Stuart formula.

Q. Was that the only reason he gave you for rejecting the agreement?      A. Yes.

The Court: What do you mean when you say he was reading from a list of 21 famous demands? What do you mean by that expression?

The Witness: Mr. Hanisch invited me to his home to discuss the contract and other things, and he had a list of 21 demands. And this, I think, was No. 8 of his demands.

The Court: I see. That is your expression.

The Witness: Yes.

The Court: Is that right?

The Witness: Yes.

The Court: All right.

Q. (By Mr. Maiden): Now, Mr. Lewis, would you relate to the Court any conversation that you may have had with Mr. Hanisch subsequent to the time he refused to accept this reversion of the contract and relating to the contract then in existence.

A. The conversation was immediately subsequent to that eighth demand. At the same time you want that conversation?

Q. Yes. [588]

A. In substance, or, rather, in precise words



(Testimony of Maxwell H. Lewis.)

of that eighth demand by Mr. Hanisch—I am afraid I lost my temper and used profanity, and got up from my chair and advanced to where Mr. Hanisch was sitting, and he stood up.

Q. Don't repeat any profanity.

A. No, I won't. And I asked him if he wanted Naboth's vineyard, also, he didn't answer.

I told him I couldn't listen any further to his demands, that he had showed bad taste, that I didn't think there was a possibility that we could work together. That I was glad he didn't accept the other contract, because if we had gotten in bed with him, we would have been smothered or crowded out. And that I saw no reason to continue deferring the fulfillment of his quotas.

Mr. Hanisch's reply at that time was the statement, "What in hell am I doing in this business, anyway?"

Q. Don't repeat any more profanity.

A. I didn't think "hell" was profane; I am sorry. I told him that had been his expression numerous times before and I would give him the same reply, that nothing was keeping him in it, that we would like to be released from him. That he had restrained us for nearly two years on the height of a vitamin wave, and I asked him if he really did want to get out. His answer was he did.

I said, "Mr. Hanisch—" I don't think I [589] said Mr. Hanisch, I said; "Arthur, how much money have you in this now?"

And he told me that over and above investors at

(Testimony of Maxwell H. Lewis.)

that time it was between \$18,000.00 and \$20,000.00.

I told him I would give him a check for it and assume the responsibilities of the Stuart contract myself and take The Stuart Company. His answer was that that probably would be the happiest out of the situation.

I said, "I wish you would make up your mind quickly. Tomorrow I will call you and let's finish it."

That was the extent of that conversation, as I remember it.

Q. Did you call him the next day?

A. I did.

Q. What took place on the telephone?

A. I reached Mr. Hanisch at the Stuart office and he told me he had changed his mind, that he would not do so. I asked him why. He gave me no answer.

I said, "How are you going to handle your purchases and sales?"

He said that was his business.

I said, "It is obvious we can't work together," and I did not thereafter want to do business with him.

Q. Well, what followed that conversation?

A. I had a meeting with our Board of Directors and reported the entire situation. It was the feeling of the Board [590] that I had exhausted my usefulness in dealing with Mr. Hanisch and The Stuart Company, and they asked that Mr. Wiseman thereafter deal with him. They authorized Mr. Wiseman

(Testimony of Maxwell H. Lewis.)

to use his discretion to negotiate for a purchase of The Stuart Company or the sale of The Stuart Formula trade-name. And after that I did not have a conversation nor talk to Mr. Hanisch or see him until in Court.

Q. Now, were you aware that The Vita-Food Corporation on October 8 served a notice of rescission of the contract on The Stuart Company?

A. A rescission of it?

Q. I mean a cancellation.

A. Yes, I was aware of it.

Q. Did you see that notice before it went out?

A. I did.

Q. It has been observed on one or more occasions that this notice simply proposed to cancel the exclusive right——

Mr. Mackay: It is part of 15.

Mr. Maiden: Thank you.

Q. (By Mr. Maiden): ——of The Stuart Company, to sell under the trade name, “the Stuart formula.” Now, if you know why, if you do, why was that notice so limited?

Mr. Mackay: I object to that, if your Honor please.

Mr. Maiden: That is a perfectly proper question. [591]

Mr. Mackay: The instrument speaks for itself.

The Court: Objection overruled. Go ahead and answer the question.

The Witness: It was so limited over my objections. Mr. Wiseman and the others felt a more

(Testimony of Maxwell H. Lewis.)

moderate course should be taken with The Stuart Company and that possibly Mr. Wiseman could succeed where I had failed to work out some method whereby sales could be increased and the quotas established.

Q. (By Mr. Maiden): Well, would you explain that a little more?

A. Mr. Wiseman advised us that to invoke the final termination clause would not have exhausted all of his efforts and dictates and he felt that we should lean over backwards and give them an opportunity to do what there was, because he felt that during the time they were not exclusive sales representatives and something might come up that might cure the entire matter.

Q. That would reinstate the contract?

A. Might reinstate the contract or other things follow. I had no such sanguine belief, but the others did believe and prevailed.

Q. Now, Mr. Lewis, state to the Court whether or not the notice from The Stuart Company served on Vita-Food and dated October 12, 1942, was agreeable to the Vita-Food Corporation? [592]

Mr. Mackay: I object to that, if your Honor please, as calling purely for a conclusion.

The Court: Read the question, please.

(The question was read.)

Mr. Mackay: I am sorry. I got off on that. I withdraw the objection.

The Witness: I am afraid——



(Testimony of Maxwell H. Lewis.)

The Court: Read the question again.

(The question was read.)

The Witness: It was agreeable to me. It wasn't satisfactory and it was disappointing to Mr. Wiseman and some of our other people. After some discussion they agreed it was the answer to the situation.

Q. (By Mr. Maiden): State whether or not you had any intention or The Vita-Food Corporation had any intention of undertaking to force The Stuart Company to purchase all of its vitamin products from Vita-Food after the cancellation of the exclusive agency.

Mr. Mackay: If your Honor please, I object. It is incompetent, irrelevant and immaterial. The contract speaks for itself. Furthermore, what they had intended, separate and apart from ourselves, the negotiations are certainly incompetent; it is not proper testimony.

Mr. Maiden: If the Court please, one of the important things in this case is whether or not there is anything [593] on earth to the claim of the Petitioner that it was actually paying money for the cancellation of this contract.

Now, quite obviously the question of whether The Vita-Food Corporation had any intention of trying to force The Stuart Company to purchase all of their vitamin products from Vita-Food after they had taken away the exclusive agency is material, bearing upon the whole question of the substance of the agreement of November 28, 1942.



(Testimony of Maxwell H. Lewis.)

Now, if the Court please——

The Court: Well, I will just say this now: Mr. Mackay, I am going to overrule your objection for this reason: It is evident from the testimony that has been given that there was something in the original contract of May 5, 1941, which was rather ambiguous, that is, but would be the obligation of The Stuart Company for the balance of ten years after the exclusive feature had been terminated.

Now, unless some issue arose to test that out we would have, on the one hand, an expression of assurance that there need not be any concern about any trouble if other products were sold, and then, on the other hand, there would be a great deal of worry about whether, if you did go ahead and act on that understanding, you would get into any trouble.

And, that was actually apparently the situation. And since the contract, I feel, was rather ambiguous, the existence of these two viewpoints, where something could happen, [594] we have heard about one of those viewpoints from Mr. Hanisch, so it seems it would be proper to hear about the other viewpoint, that of Mr. Lewis.

Now, if you do not agree with that I would like you to say so now, before I make my ruling.

Mr. Mackay: Your Honor, what I am particularly objecting to is they say, "What was your intention?" What was the intention of somebody here entirely outside of all these negotiations.

The Court: Because it is too hypothetical?

(Testimony of Maxwell H. Lewis.)

Mr. Mackay: Yes. And also because it is calling for a conclusion, what is his intention. His intention, we can determine from the agreement, the provisions of the agreement.

I think just to have a man ask him what his intention was, I don't think it is proper.

The Court: I see what you mean. Your objection is that what one party to a contract might intend to do about the contract could involve, for instance, a waiver of a provision of the contract. Intention need not necessarily reflect the terms of the contract.

Mr. Mackay: Yes.

The Court: That is the basis of your objection?

Mr. Mackay: Yes.

The Court: I didn't understand that at first. I sustain your objection. [595]

Mr. Maiden: If the Court please, I don't understand the basis of the Court's ruling and I will note an exception.

The Court: I will explain it to you, because I think this is important. If I can quickly think of a fairly comparable illustration, I will do it. I don't know whether I can or not. But let us suppose that under a contract the party has the right to terminate it upon the giving of 60 days' notice after the contract has been in existence for three years. Otherwise, the contract is to continue.

And you ask the witness, "Did you have any intention of giving that notice?"

(Testimony of Maxwell H. Lewis.)

“Well,” he says, “no I had not. That intention.”

Now, there you have, I would say, an illustration of intent. You have to have an expression of intent because your contract calls for an expression of intent. Therefore, it is proper to ask the witness to testify about his intention. But if you have a provision in a contract which says that one party has a right to—well, if you had a fixed provision in the contract which is susceptible of being waived, but until it is waived it is a part of the contract, and you assume, one, did they have an intention to waive it. Then you are talking about intent, apart from the terms of the contract.

Now, that is the best I can do to make that clear. We will take a recess.

(Short recess taken.) [596]

The Court: Proceed, Mr. Maiden.

Q. (By Mr. Maiden): Mr. Lewis, have you looked over Respondent's Exhibit L during the recess, which is a letter dated January 30, 1941, from you to Mr. Charley King?

A. I haven't quite completed it. I am in the process of reading it.

Q. Will you please hurry through it?

A. Yes. I have finished it.

Q. Mr. Lewis, does that letter contain the entire representations made by you to Mr. Hanisch?

Mr. Mackay: I object to that, your Honor, as calling for a conclusion of the witness.

(Testimony of Maxwell H. Lewis.)

Mr. Maiden: Calling for a conclusion? This witness knows whether or not it is a fact.

The Court: What is the letter?

Mr. Maiden: That is the letter, if the Court please, in which Mr. Lewis sets forth—that is the letter in which he makes answer to the letter from Mr. King asking certain questions of Mr. Lewis.

The Court: But your question is too broad, Mr. Maiden, I sustain the objection.

Q. (By Mr. Maiden): Mr. Lewis, did you make any representations to Mr. Hanisch at the time you were negotiating the agreement of May 5, [597] 1941, on and in behalf of Vita-Food Corporation?

A. Yes.

Q. I will hand you Exhibit 8 and ask you whether or not this letter contains those representations? A. Substantially all.

Mr. Mackay: I object; same objection.

The Court: Objection sustained.

Mr. Maiden: Your Honor, I don't understand the ruling. Would you please explain the ruling?

The Court: The letter speaks for itself, Mr. Maiden. All that could be in a person's mind in addition to what is set forth in the letter could be very broad. I think your question is too broad. If you want to develop a point there, I think you ought to do it by direct questioning.

Mr. Maiden: If the Court please——

The Court: This is a letter addressed to Mr. King and not to Mr. Hanisch.



(Testimony of Maxwell H. Lewis.)

Mr. Maiden: I know. That is true, if the Court please.

The Court: And if Mr. Lewis had made representations to be given to Mr. Hanisch through another person, and you don't have that other person here to testify, then we would possibly get some misleading testimony.

Mr. Maiden: If the Court please, I believe there is a little confusion.

The Court: The letter suggests there is a controversy [598] about nothing.

Mr. Maiden: No. Your Honor, this letter——

The Court: I believe it does. Just let me see that.

Mr. Maiden: That is before the May 5 contract was entered into. Mr. Hanisch, on his direct testimony, stated that Mr. Lewis——

The Court: The letter states, "If we are to proceed with Mr. Hanisch and his group, it is desirable that issues raised in your memo be quickly resolved to the satisfaction of all concerned, or the project abandoned."

Mr. Maiden: That is right.

The Court: The letter does refer to issues that have been raised. Whether those issues were controversial or not, we don't know. What questions are raised in the memo we don't know. This letter purports to answer some questions.

Now, it seems to me that that is all that the letter is, it is a letter to answer certain questions that are raised. If you ask this witness whether



(Testimony of Maxwell H. Lewis.)

that letter represents all the representations that he ever made to Mr. Hanisch, I don't know that the witness would really understand your question. I think it would be rather hard to cross-examine on an answer to that kind of question.

Mr. Maiden: Will the Court hear me a moment, please? A prior exhibit in the case is Exhibit K. Exhibit K is a letter addressed to Mr. Lewis by Mr. Charley King, who the record shows [599] acted as emissary between Mr. Hanisch and Mr. Lewis for the purpose of bringing them together, to enter into this business arrangement of May 5, 1941.

The Court: Yes. That may be, but also Mr. Hanisch and Mr. Lewis had some conversations in which they both participated, also about these business arrangements.

Now, is the purpose of this question to rebut some testimony of Mr. Hanisch?

Mr. Maiden: The purpose of this is to show——

The Court: Answer my question. Is it to rebut some of his testimony or isn't it?

Mr. Maiden: The purpose of it is to show what representations Mr. Lewis made to Mr. Hanisch.

The Court: All right, then. Ask him what representations he made and do it independently of any of these exhibits.

Q. (By Mr. Maiden): Mr. Lewis, in order to comply with her Honor's request, would you state to the Court all the representations that you made to Mr. Hanisch with respect to The Vita-Food

(Testimony of Maxwell H. Lewis.)

Corporation and its product and its ability to comply with a contract then under consideration with The Stuart Company?

A. It is going to take quite a lengthy statement.

Q. That is all right. I want it done, Mr. Lewis. Take your time and give it in detail.

A. I believe the representations were in several sections, [600] as the Court stated, in part in small degree, possibly modified by conversation from a list of points I submitted in writing to Mr. Hanisch through his emissary.

Q. Are those points set forth in Respondent's Exhibit L?      A. Yes.

Q. Are the questions asked by Mr. Hanisch set forth in Respondent's Exhibit K?      A. Yes.

Q. Go ahead, Mr. Lewis.

A. May I read this letter?

The Court: I don't know why you have given him the letter. You have a question.

Mr. Maiden: I was trying to save the Court's time, because this letter sets forth the statements Mr. Lewis made in answer to the questions asked of him.

The Court: It seems to me——

Mr. Maiden: I want him——

The Court: ——the exhibits speak for themselves, Exhibit K and Exhibit L. If you want to supplement those two exhibits you may do so by asking this witness direct questions.

Mr. Maiden: I thought I could do that, your Honor, by asking him whether he made any other

(Testimony of Maxwell H. Lewis.)

or additional representations to Mr. Hanisch than those set forth in Respondent's Exhibit L. [601]

The Court: That isn't the question which you asked him, to which objection was made and which I sustained.

Mr. Maiden: I will now make that my question.

Q. (By Mr. Maiden): Do you understand the question now, Mr. Lewis?           A. Yes, I do.

Q. Will you answer it?

A. I think not. There may have been, but I don't recall them at the moment.

Q. Mr. Lewis, did you tell Mr. Hanisch this product had been developed at the laboratory of the California School of Technology?

A. I confirmed Mr. King's statement that it was revealed there.

Q. Did you tell Mr. Hanisch your product was natural and not synthetic?

A. I told him it was a natural base fortified.

Q. Did you explain to him what that meant?

A. I believe he asked questions about it at the time. But he wasn't very familiar with vitamins and nutrition at our first meeting, and I am not sure he quite understood it.

Q. Did you represent to Mr. Hanisch that you thought it was similar in every respect to Buoyant B?           A. No.

Q. You did not? [602]

A. I did not; it was wholly dissimilar.

Q. Did you represent to Mr. Hanisch that your product represented a new and unusual and excep-

(Testimony of Maxwell H. Lewis.)

tional process for stabilizing vitamins A and B complex?

A. Not in those precise words. I told them we had a new process and we did stabilize the A, and B complex.

Q. Did you have a new process?

A. We did.

Q. Did you make any representation to Mr. Hanisch with respect to your financial responsibility with respect to damage in their sales of the product?

A. I don't believe that that discussion of that point came up until long after the contract was entered into.

Q. What was the occasion of it coming up and what did you tell Mr. Hanisch?

A. I don't recall the conversation.

Q. Mr. Lewis, state whether or not the responsibility the Vita-Food Corporation assumed from the losses of the bottles breaking and damage incident to that——

A. Full responsibility.

Q. Now, Mr. Hanisch—did you tell Mr. Hanisch you had perfected any tablets?

A. There was never discussion with Mr. Hanisch about tablets until the end of '41, almost a year after the contract was signed. [603]

Q. Did The Vita-Food Corporation perfect a tablet?

A. Yes.

Q. When was that perfected?

A. Work on the tablet began in late '41 and was concluded in, I believe, March of '42.

(Testimony of Maxwell H. Lewis.)

Q. Was that tablet made available to The Stuart Company for sale? A. It was.

Q. Was it sold exclusively to The Stuart Company? A. The Stuart formula tablets?

Q. Yes. A. Yes, it was.

Q. Do you know what percentage of the sales of The Stuart Company from and after the perfection of The Stuart Formula tablet represented sales of the tablets rather than the liquid concentrates, approximately?

A. From the time the tablets were introduced until its termination of our relationship?

Q. Yes.

A. I would have to guess; possibly a little more than a guess. I think about 30 per cent tablet and 70 per cent syrup.

Q. Mr. Lewis, what percentage of total sales of the liquid concentrates would you say involved breakage and loss in connection with the explosions?

A. Again, I would have to approximate. I believe it was [604] less than 1 per cent of the gross sales to The Stuart Company.

Q. No such incidents happened with respect to the other sales, is that correct?

A. I mean the gross sales—it was \$373,000.00 or \$400,000.00. I don't believe the entire two-year period resulted in more than \$400,000.00 and we refunded all claims.

Q. You say you did refund all claims?

A. Made good every claim.



(Testimony of Maxwell H. Lewis.)

Q. I believe that breakage and blowing up wouldn't apply to the tablets, is that right?

A. That is true.

Q. Those tablets were sold under the trade-name of the Stuart formula, just like the liquid?

A. Yes.

Q. Now, Mr. Lewis, what was the intention of The Vita-Food Corporation and yourself with respect to the agreement of November 28, 1942?

Mr. Mackay: Just a moment, if your Honor please, I understand the question to be what his intention was with respect to the agreement of 1942.

Mr. Maiden: That is right.

Mr. Mackay: If your Honor please, I object to that, as calling for a conclusion of the witness. He was not a party to this agreement at all. I mean he was not a party in the negotiations whatsoever. We have gone over that with people [605] who were. And we have got the contract. It is merely an opinion of his and he is not qualified to answer, in my opinion.

Mr. Maiden: If the Court please, I don't propose to be cut off on my side of the case from showing the intention of The Vita-Food Corporation in this contract. Mr. Mackay has gone at great lengths with Mr. Dunlap and Mr. Hanisch, and asked them to express their intention, what they were doing in the contract. I submit the respondent, in fairness to his case, has the same right to ask this witness that question.

(Testimony of Maxwell H. Lewis.)

Mr. Lewis, the record clearly shows, was the managing director of The Vita-Food Corporation and was the man who had all the dealings and was the man who was responsible for the negotiations of the May 5, 1941, contract, and that Mr. Lewis was the person to whom Mr. Wiseman went for instructions in respect to what he should do in these negotiations.

I submit that the question is not only proper but that it would be highly prejudicial to the government's case to exclude it.

Mr. Mackay: If your Honor please, I would like to make this observation: The record is very clear here that a vice president, Mr. Wiseman, conducted negotiations from beginning about 6:30 on November 27, 1942, up until 6:00 o'clock of the morning of the 28th, at which time the contract was [606] signed. The contract was all signed and completed and everything before the witness could ever know what was in the contract. Therefore, I strenuously object to the question; asking a layman to interpret a contract or what his intention——

Mr. Maiden: I am asking one of the parties, participant to this contract.

Mr. Mackay: What he intended after a contract was completed and handed to him——

Mr. Maiden: If Mr. Mackay is going to take that position, I am going to make a motion here and now that every expression of intent made by and on behalf of Mr. Dunlap, when he was on the

(Testimony of Maxwell H. Lewis.)

stand and Mr. Hanisch when he was on the stand, be stricken from the record.

The Court: You can't make a motion of that kind.

Mr. Maiden: I do make it, your Honor, if Mr. Mackay is going to make any such insistence of this. I don't propose to have his witnesses go on and express what their intention was and yet be foreclosed as to what my witnesses, the other parties to the contract express what their intentions were.

The Court: You can't make a motion of that kind, and you know it. The time you object to testimony is at the time the testimony is being given.

Mr. Maiden: This is a Court of Equity, your Honor please, and I would have no hesitancy in making such a motion. [607] I, of course, might not be sustained.

The Court: No, it wouldn't be sustained.

Mr. Maiden: To which I would take an exception. That I do submit, if your Honor please, the question I have asked Mr. Lewis is a proper and material question in the case. Now it is admitted here this agreement of November 28, 1942, is the vital agreement in the case.

The determination of this Court, whether this contract was the sale of a capital asset or merely the payment of money for the cancellation of a contract, is to be determined largely from the intent of the parties, and that is not controlled by the language used. It is the substance of the agreement that we are interested in, rather than the language.

(Testimony of Maxwell H. Lewis.)

The Court: Now, Vita-Food Corporation is a party to the agreement. But the agreement was signed on behalf of the corporation by Mr. Wiseman. And he was the only representative of The Vita-Food Corporation who was present at the time that this agreement was being prepared, discussed, written and executed. He is the party to the agreement. Mr. Lewis is not. Mr. Lewis is an officer of the company, but he wasn't the officer of the company who signed the agreement.

Now, the agreement, I suppose was ratified subsequently by the corporation and accepted by the corporation.

So far as the intent of those who drafted the agreement is concerned, Mr. Lewis is not competent to testify, and [608] the objection is sustained.

Mr. Maiden: In view of the Court's ruling the Respondent at this time moves that the expressions of intention testified to by the witnesses Dunlap and Hanisch be stricken from the record.

The Court: Well, Mr. Dunlap was present at the proceedings. He signed the agreement as secretary of The Stuart Company. Mr. Hanisch was present during the negotiations and drafting of the agreement, and he signed the agreement as an officer of The Stuart Company.

Mr. Dunlap and Mr. Hanisch for The Stuart Company are parties to the agreement. Your motion is denied.

Mr. Maiden: Exception noted.

Q. (By Mr. Maiden): Mr. Lewis, tell the Court



(Testimony of Maxwell H. Lewis.)

who instructed Mr. Wiseman with respect to his authority and the extent of his authority to carry on the negotiations with The Stuart Company, that is, Mr. Hanisch and Mr. Dunlap with respect to the agreement of November 28, 1942.

A. The managing director and the board of directors.

The Court: Who was the managing director?

The Witness: I am.

The Court: Who are the board of directors?

The Witness: Mr. Wiseman and myself, and Mr. Overton at that time. [609]

Q. (By Mr. Maiden): Did you discuss with Mr. Wiseman the negotiations that were being held with Mr. Dunlap and Mr. Hanisch?

A. I did.

Q. What discussion did you have with Mr. Wiseman in that respect?

Mr. Mackay: Your Honor please, I object to that. That is purely hearsay. It seems we are wasting time. I think there is no question here about——

The Court: Here is what he told Mr. Wiseman——

Mr. Maiden: I beg your pardon.

The Court: What Mr. Lewis told Mr. Wiseman would not be hearsay.

Mr. Mackay: It would be, I think. There is no dispute about Mr. Wiseman negotiating and signing the contract.

The Court: Read the question.

(The question was read.)



(Testimony of Maxwell H. Lewis.)

The Court: Will you please reframe your question, to take out any element of hearsay.

Q. (By Mr. Maiden): Mr. Lewis, did you yourself give any instructions to Mr. Wiseman relative to his negotiations with Mr. Dunlap and Mr. Hanisch? A. I did.

Mr. Mackay: I object to that as [610] self-serving.

The Court: Objection is overruled.

Mr. Mackay: It is incompetent, irrelevant and immaterial.

The Court: The objection is overruled.

Q. (By Mr. Maiden): What instructions did you give him?

A. They extended over a period of some weeks, and were broken up. They were broken up into terms following his discussion with Mr. Hanisch or Mr. Dunlap, or either of them.

The Court: That doesn't answer the question.

Q. (By Mr. Maiden): I want to know what instructions you gave him.

The Court: Are you going to answer the question?

The Witness: Yes, I am.

The Court: All right.

The Witness: I gave—I told Mr. Wiseman that his position as reported to me that he had taken in his discussion——

The Court: No. This has to do with what——

Q. (By Mr. Maiden): I want you simply to state——

(Testimony of Maxwell H. Lewis.)

The Court: Read the question.

(The record was read.)

The Court: That is the question. What instructions did you give him and the emphasis is on instructions, if any? [611]

The Witness: Not to sell the trade-mark of the Stuart formula for less than \$200,000.00.

Mr. Mackay: Will you read the last answer?

(The answer was read.)

Mr. Maiden: I believe that is all, if the Court please.

#### Cross-Examination

By Mr. Mackay:

Q. Now, Mr. Lewis, are you an advertising man?

A. I don't understand the question.

Q. Do you know what advertising means?

A. Yes. You mean carry a sandwich board around?

The Court: You can answer the question yes or no.

The Witness: I don't understand the question, your Honor.

Mr. Mackay: O.K.

The Court: All right.

Q. (By Mr. Mackay): I understood on direct examination that you stated that you had suggested to Mr. Hanisch that he use the name of Stuart in one company and the name of Shaler in the other, because of his two sons? A. Yes.

(Testimony of Maxwell H. Lewis.)

Q. Do you know Mr. Pringle or Mr. Leesman of Lord & Thomas? [612]

A. I know Mr. Pringle rather well, but I don't recall Mr. Leesman.

Q. Isn't it a fact or didn't you know that Mr. Hanisch had consulted them with respect to selecting a name?

A. I don't know what Mr. Hanisch consulted or who.

Q. He told you at that time, didn't he? He was consulting Lord & Thomas about a name?

A. No.

Q. You never heard of it until today?

A. No, not that phrased question, I haven't. Mr. Hanisch and I discussed that repeatedly.

The Court: What do you mean "not that phrased question"? You are sticking to the question a little meticulously.

The Witness: No, your Honor. Mr. Hanisch, Mr. Pringle and I had hundreds of discussions, literally hundreds of discussions.

The Court: You mean Mr. Hanisch never said to you, "I am consulting the agency"?

The Witness: Yes. It was Mr. Pringle's partner; the agency wasn't concerned.

The Court: Reframe your question. The witness wants to be exact about that question.

Q. (By Mr. Mackay): Did Mr. Hanisch ever discuss with you the fact that he had consulted Lord & Thomas, Mr. Leesman of Lord & Thomas [643] as to choosing a name? A. No, he hadn't.

(Testimony of Maxwell H. Lewis.)

Q. He had never done it? A. No.

The Court: What do you mean by saying you had conferences with Mr. Pringle?

The Witness: Mr. Pringle was a partner of Mr. Hanisch and one of the directors on The Stuart Company with Mr. Hanisch.

The Court: He wasn't connected with Lord & Thomas?

The Witness: Yes, but that wasn't his function in this discussion.

The Court: You think he should have drawn the line between his work in Lord & Thomas and his work for the corporation, is that the idea?

The Witness: I am trying to be truthful, your Honor. I really don't understand the distinction. I can't understand what he wants. I am perfectly willing to answer any question.

Q. (By Mr. Mackay): Mr. Pringle was an officer of Lord & Thomas, wasn't he?

A. I think he was.

Q. They are advertising men, Lord & Thomas?

A. Advertising—— [614]

Q. You understand what advertising is?

A. Yes, I do.

Q. Didn't you and Mr. Hanisch and Mr. Pringle talk about the name? A. Yes.

Q. The creation of the name? A. Yes.

Q. And that was before you were coming into Pasadena, weren't you and Mr. Hanisch and Dr. Borsook, from Fort MacArthur?

(Testimony of Maxwell H. Lewis.)

A. About the Stuart Company name?

Q. Yes.           A. Yes.

Q. It was pretty well agreed at that time it would be called the Stuart formula?           A. Yes.

Q. Now, Mr. Lewis, I understood you to say on direct examination that the only complaint that Mr. Hanisch made about the contract of May 5, 1941, was about the quota that the Stuart Company was required to sell.

A. No. I think that was not my testimony.

Q. What complaints did he make?

A. About price?

Q. About price.           A. Yes. [615]

Q. Any other complaints?           A. In 1941?

Q. Yes, or early in 1942.

A. With respect to the terms of the contract?

Q. Yes.

A. I don't recall them at this moment.

Q. You don't recall them. Didn't he complain about the product being unsatisfactory?

A. No.

Q. And exploding?

A. Yes. He mentioned it.

Q. That is the complaint he made?

A. Yes. That wasn't the terms of the contract, as I understood it.

Q. You understood that by the terms of the contract you had a stable product and were to supply a stable product?

A. I don't recall the terms of the contract saying a stable product, but we certainly intended to give him one.



(Testimony of Maxwell H. Lewis.)

Q. That is what you intended? A. Yes.

Q. Now, I think you stated in the summer of 1942 that relations between you and Mr. Hanisch became rather strained and as a result of that you prepared and sent to him a proposed agreement, a modification, which is Exhibit W?

Mr. Maiden: That is Exhibit W, Mr. [616] Mackay.

Mr. Mackay: Yes.

Q. (By Mr. Mackay): And I understood you to say Mr. Hanisch invited you over to his home to discuss this proposed agreement.

A. That wasn't my testimony.

Q. Isn't it? A. No.

Q. What did you say? I don't want to misquote you.

A. The strain followed that discussion; strained relations followed that.

Q. Let's leave out the strained relations.

A. Yes.

Q. I will ask you this: I understood you to testify in the summer of 1942 you had prepared a proposed agreement modifying the agreement of May 5, 1941? A. Yes.

Q. And that Mr. Hanisch invited you over to his home or you went to his home and you had some discussions about it? A. Yes.

Q. I think you also stated that he had 21 demands at that particular time? A. Yes.

(Testimony of Maxwell H. Lewis.)

Q. Did you discuss those demands at that particular time?      A. Up to No. 8. [617]

Q. Up to No. 8?      A. Up to No. 8.

Q. Well, did I understand you correctly—I will withdraw that. Up to No. 8?      A. Yes.

Q. Were you willing at that time to agree to all his demands up to No. 8?      A. No.

Q. You weren't?      A. No.

Q. Did I understand you on direct examination that the only reason why he rejected the proposed modification or agreement modifying the contract of May 5, 1941, was because of the fact he demanded an ownership in the fee.

A. That was the reason he gave me.

Q. Well, he had demanded, at least made 7 demands on you before he got to No. 8, didn't he?

A. I don't recall they were in relation to the contract or the modification of it.

Q. Weren't they in relation to the agreement of May 5, 1941?

A. Not in relation to the contract of May 5 but in relation to the entire advertising problem. He wanted a part ownership in the Vita-Food Corporation. He wanted some shares in that. Let me see what other demands there were up to No. 8. [618] He wanted a financial statement. I can't recall with certainty the other demands.

Q. Isn't it a fact that Mr. Hanisch rejected this proposed contract?

The Court: What is the revision, the exhibit?

Mr. Maiden: Exhibit W.

(Testimony of Maxwell H. Lewis.)

Mr. Mackay: Exhibit W.

Q. (By Mr. Mackay): He rejected it because of the many objections to the terms therein?

A. I don't recall him making any objection except to the fact he didn't get an outright deed to a half interest to the Stuart formula.

Q. Didn't he tell you at that time he wouldn't sign this contract if he got the deed to the formula?

A. No, he did not.

Q. He didn't? A. No.

Q. Did he mention the fact that in this proposed agreement you had cut down the 60-day period to 30-day period, in which you could cancel the agreement?

A. No. I think that he congratulated me on cutting his quotas in two. I don't recall his objection to a 30-day period. In fact, at this moment I had forgotten a—there was any distinction, if there is one. [619]

Q. I am sure you will find that in the agreement. A. I don't recall it, Mr. Mackay.

Q. Now, do you know Mr. Ellis?

A. Yes, I do.

Q. Formerly of the California Institute of Technology, I mean? A. Yes.

Q. Did he ever work for Vita-Food?

A. He did.

Q. Isn't it a fact that this product was initially developed at his home? A. It is not.

Q. Where was it developed? A. Caltech.

Q. When did you find that out first?

(Testimony of Maxwell H. Lewis.)

A. When I help with it.

Q. When did you help with it?

A. Beginning in June of 1940.

Q. Didn't I understand you to say on direct examination that you learned from Mr. King that the product has been developed in California Institute of Technology?      A. You did not.

Q. Now, Mr. Lewis, I call your attention to Exhibit 8, which is the contract of May 5, 1941. I will ask you if it is not a fact that the first shipment to Mr. Hanisch of this [620] product was brewed in Ellis' kitchen and bottled in his garage?

A. No.

Q. Was it brewed in anybody's kitchen?

A. No.

Q. Where was it brewed?

A. At our plant.

Q. Where?      A. In South Pasadena.

Q. Where is that plant?

A. 1913 South Fremont.

Q. When did you get the plant?

A. In the latter part of November or December of 1940.

Q. Who had occupied that before?

A. A broom factory.

Q. A broom factory?      A. Yes.

Q. Do you know whether it had been operated by a dog and cat hospital?

A. It had never been operated by a dog and cat hospital.

Q. Now, didn't you state in your letter to Mr.

(Testimony of Maxwell H. Lewis.)

Charles King, Exhibit 11, that the whereabouts of your plant must not be disclosed to anyone?

A. I didn't say "must not," did I? I said, "would not." [621]

Mr. Maiden: Don't let Mr. Mackay put words in your mouth.

Mr. Mackay: I am not trying to put words in his mouth. I am trying to be fair.

Mr. Maiden: That is all we ask.

Mr. Mackay: Thank you. Let's get the letter. It is Exhibit L.

Q. (By Mr. Mackay): I am calling your attention to the third paragraph where it says "The whereabouts of the Vita-Food plant and its method of operation will not be disclosed to anyone as a preliminary to completing a sales deal or organization."

A. "Will not be disclosed." What was the question, Mr. Mackay?

Q. I say why did you put that in there?

A. That is the only answer. I can't see any reason for it.

Q. Now, Mr. Lewis, I think you stated a while ago that when Mr. Hanisch would make complaints to you about the quota requirements of the contract of May 5, 1941, that you told him that the way for him to get out of his difficulty was to increase the volume.

The Witness: Would you read the question, please?



(Testimony of Maxwell H. Lewis.)

(The question was read.)

The Witness: I substantially told him [622] that.

Q. (By Mr. Mackay): It was your desire there, of course, to build up a rather large pharmaceutical industry? A. Yes.

Q. You thought it could be done, did you, or did you? A. Yes.

Q. That was your main interest at that particular time in not modifying the quota requirements of the contract? A. No.

Q. What other reason did you have?

A. I felt I could not recommend to my group a diminishing standard of performance, when a maximum had not been attained or even attempted.

Q. You heard Dr. Borsook on the stand this morning, didn't you? A. Yes.

Q. Where he explained that the vitamins were too expensive because too much money had been spent on the promotion?

A. I didn't get his saying exactly that, Mr. Mackay.

Q. Do you agree with that?

A. Do I agree with what?

Q. Do you agree to this statement?

A. Will you read his statement?

Q. You were here and heard him testify?

A. I can't remember exactly that statement, I would [623] like to hear it.

Q. At the time you entered into the contract of

(Testimony of Maxwell H. Lewis.)

May 5, 1941, what was your main purpose in undertaking the manufacturing and distribution—just prior to this agreement of May 5, 1941, what was the main purpose you had in mind in manufacturing and distributing vitamins?

A. Just prior to May 5?

Q. Yes.

A. To put out a good product, to keep faith with Dr. Borsook and to make some money.

Q. The main purpose, of course, was to increase the nutritional standards of the communities?

A. That was one of the purposes.

Q. I call your attention to Exhibit 8, in paragraph, "Whereas, second party has undertaken to make available to a large number of people vitamin food concentrates which have heretofore been unobtainable by them on account of high prices, and desires to produce such food concentrates of high standard at prices lower than heretofore offered in this country, and first and third parties are in accord with second party in the view of the desirability of accomplishing this purpose to the end that the nutritional standards now prevailing in this country may be greatly improved."

At that time you were concerned, of course, with having a product distributed to the masses at a price they [624] could pay?

A. That was one of the purposes.

Q. That was the main purpose?

A. That was one of the main purposes.

(Testimony of Maxwell H. Lewis.)

Q. Wasn't that the main purpose of Dr. Borsook?

A. Dr. Borsook wasn't a party to that contract.

Q. Didn't he enjoin upon you to live up to that desire?

Mr. Maiden: If the Court please, I believe Dr. Borsook has already testified this morning and stated he didn't have any control. I believe that is already clear in the record, and I think Mr. Mackay is just wasting time and stalling around for some purpose.

Mr. Mackay: I am not wasting time.

The Court: This is cross-examination and you know what the rules of cross-examination are.

You may proceed, Mr. Mackay.

Q. (By Mr. Mackay): I call your attention to the letter of January 20, 1941, Exhibit L, which is addressed to Charley King. You say, "Your experience with us, and the fact that Dr. Borsook has gone into our situation thoroughly, and has entrusted us with great responsibilities—both financially and ethical—should indicate the extent of our responsibilities."

Now, what did you understand by "those responsibilities" [625] entrusted to you by Dr. Borsook?

A. Those responsibilities included, in my opinion, our making the best product we could, subjecting ourselves to his over-all scientific supervision and to try to find as wide a market as we could, consistent with good sound business practices, but not an unconscionable profit.

(Testimony of Maxwell H. Lewis.)

Q. Well, it was Dr. Borsook's main purpose, wasn't it, in helping you with this product or developing it to get it into the hands of the public at a very low price?

A. At the lowest price possible.

Q. In order to increase the nutritional standards?

A. I believe that was his motivating force.

Q. Yes. Now, Mr. Lewis, did you ever reduce the sales price to the Stuart Company of the product?

A. I think not.

Q. You did not? A. Except in part.

Q. You knew that the Stuart Company was not making any profit from it, didn't you?

A. No.

Q. What salary did you get from the Vita-Food Corporation?

A. \$600.00 a month.

Q. \$600.00 a month? A. Yes. [626]

Q. Who were the stockholders?

A. At what time, Mr. Mackay?

Q. In 1941. A. '41?

Q. At the execution of the agreement.

A. In May of 1941 I believe there was Mr. Overton, Mr. Shopland, Mrs. Lewis and myself.

Q. Was any change in that ownership made up to the time of the settlement agreement, November 28?

A. Yes.

Q. What was the change?

A. Well, there was a \$47,000.00 additionally paid in capital on 23,000 additional shares of stock issued. And Mr. McBride became a larger stock-

(Testimony of Maxwell H. Lewis.)

holder and—let's see, I bought Mr. Wiseman's stock. I bought Mr. Overton's stock. P. A. Russell became a stockholder. I think that constituted the stockholders at the end of '42.

Q. Was your salary from the corporation \$600.00 a month from May 5, 1941, to October, 1942?      A. Yes.

Q. Do you have a controversy pending with the United States Government over this contract of May 5, 1941?      A. No.

Q. The government has examined it?

A. I don't know of a controversy existing over the [627] May 5 contract, Mr. Mackay.

Q. Well, has the government taken any position there with respect to whether or not there was a sale, the Vita-Food Company had made a sale?

A. The sale of the trade-mark?

Q. Yes.

A. Yes, they have taken a position.

Mr. Maiden: That is the contract of November 28th; you said May 5th.

Mr. Mackay: I am sorry.

Q. (By Mr. Mackay): What position is the government taking there?

A. The government at this point has taken the position that it cannot settle its proposed assessment against the Vita-Food Corporation until the pending suit or appeal of the Stuart Company has been heard and passed on.

Q. So you are directly interested in the outcome of this suit?      A. Yes.



(Testimony of Maxwell H. Lewis.)

Q. Now, are you a licensed pharmacist?

A. No, sir.

Q. Did you have a licensed pharmacist in your plant?      A. No.

Q. In the laboratory?

A. In the laboratory?

Q. Yes.

A. No, not as a pharmacist. [628]

Q. Did you have one in the plant?

A. No, not as a pharmacist.

The Court: That is not the question. The question is did you have anyone in your plant who was a licensed pharmacist. That is the question.

The Witness: No.

Q. (By Mr. Mackay): Do you mean to tell this Court that during the interval between May 5, 1941, and November 28, 1941, that you manufactured—1942, I mean, you manufactured products in your plant, these products without the assistance of a licensed pharmacist?      A. Yes.

Q. Didn't Mr. Hanisch complain to you about the frothing of the product?      A. Yes, he did.

Q. He did that several times, did he not?

A. Yes; he did; yes, he did.

Q. He also complained to you about the bottles exploding on the shelves?      A. Yes, he did.

Q. I show you a letter of July 22, 1942, from McKesson & Robbins, Incorporated, wherein 16 bottles out of 24 had blown up in their establishment. Did Mr. Hanisch complain to you [629] about that?      A. Yes.

(Testimony of Maxwell H. Lewis.)

Q. And call that to your attention?

A. He did, either me or Mr. Wiseman or someone in our group.

Mr. Mackay: Do you have any objection to this?

Mr. Maiden: No objection to it. I think this has already been covered in the testimony, about the blowing up of the bottles.

The Court: It will be received in evidence as Exhibit 20.

(The document above referred to was received in evidence and marked Petitioner's Exhibit No. 20.)

Q. (By Mr. Mackay): Isn't it a fact that because of the breakage and frothing of these products that you were agreeable to—that the contract referred to be amended by extending for a period of 60 days the time for performance of the specified quota requirements?

A. Yes, at Mr. Hanisch's request.

Mr. Mackay: That is all.

### Redirect Examination

By Mr. Maiden:

Q. Mr. Lewis, during the time you were manufacturing your product in your plant you stated that you didn't have a licensed pharmacist in charge there or in the plant. What [630] assistance did you have and what qualifications did they have?

A. Through 1941 and '42 at all times we had the assistance of one or more persons with Ph.D.

(Testimony of Maxwell H. Lewis.)

degrees in biochemistry or bio-organic or organic chemistry.

Q. Where were they from?

A. They were from Caltech.

Mr. Maiden: That is all.

Mr. Mackay: I have one further question.

Recross-Examination

By Mr. Mackay:

Q. What are your educational background items, Mr. Lewis?

A. I completed two years of night high school. That was the extent of my formal education.

Mr. Mackay: That is all.

Mr. Maiden: That is all.

Q. (By the Court): I would like to ask Mr. Lewis a few questions. Mr. Lewis, the trade name to be used in connection with the sales through the Shaler Company is Vitaplex. Are you using that name today? A. No.

Q. You are using another name called Calplex?

A. Yes, we had to substitute Calplex for Vitaplex.

Q. Why? [631]

A. Because it was in conflict with another trade name Vitaplex.

Q. Whose trade name was that?

A. Someone in New Jersey asserted a claim. We investigated and found they were entirely right, and we abandoned it.

Q. When did that claim come up?

(Testimony of Maxwell H. Lewis.)

A. In 1941.

The Court: Mr. Mackay, I don't want to delay, but where in this contract is the reference to Vitall?

Mr. Mackay: Is that the agreement of May 5, your Honor?

The Court: Yes.

Mr. Mackay: It is on page 7, your Honor.

Q. (By the Court): The 11th paragraph in the agreement of May 5, 1941, Exhibit 8, it says, "Second party—" that is Vita-Food Corporation—"shall not directly or indirectly sell any of its products to any person, firm or corporation other than First parties—" that is the Stuart Company and the Shaler Company—"save and except the product now being marketed under the name 'Vitall' in Los Angeles County, but provided, however, that First parties shall have the right and privilege of marketing and/or distributing said Vitall outside of Los Angeles County at prices identical with those quoted by Second party in said Los Angeles County." [632]

Now, I want to ask you about Vitall. Was Vitall the same stuff that you sold to the Stuart Company to be sold under the name of Stuart formula?

A. Not quite the same.

Q. Well, was it a multivitamin formula, put up in a syrup base? A. Yes.

Q. And what was the difference, just in the unit?

A. Potency.

Q. Units of vitamins in it? A. Yes.

Q. Was its potency less or more?

A. Slightly less.

(Testimony of Maxwell H. Lewis.)

Q. While the agreement of May 5, 1941, was being operated under by the Stuart Company, did you sell them the Vitall formula to be sold by them outside of Los Angeles? A. Yes.

Q. They bought that? A. Yes.

Q. Now, when it came to terminating this agreement, under the agreement of November 28, 1942, of course, they could no longer sell or distribute anything under the name of Vitall, isn't that correct?

A. I think their right terminated before then, to sell Vitall. [633]

Q. How did that happen?

A. Their quotas were not kept up in Stuart. Notice was given and received; cancellation of the contract.

Q. There was some question, as I understand, about when this contract terminated. But when this contract did terminate Stuart Company then had no further right to sell Vitall, isn't that true?

A. Yes, that is right.

Q. Now, are you selling Vitall at the present time? A. Yes.

Q. Are you selling it outside of Los Angeles?

A. Yes, nationally.

Q. Where do you sell Vitall?

A. All over the United States.

The Court: That is all.

Mr. Mackay: That is all.

Mr. Maiden: Just a second. I have one question.



(Testimony of Maxwell H. Lewis.)

Redirect Examination

By Mr. Maiden:

Q. Mr. Lewis, can you tell the Court what percentage of the total sales made by you to The Stuart Company, under this contract were Vitall, was the Vitall product.

A. Less than 2 per cent.

Mr. Maiden: That is all, if the Court please.

Mr. Mackay: That is all. [634]

The Court: You may step down.

(Witness excused.)

Mr. Maiden: Now, if the Court please, yesterday afternoon I asked counsel—your Honor please, I overlooked one exhibit I want to put in by Mr. Lewis.

Whereupon,

MAXWELL H. LEWIS

recalled as a witness for and on behalf of the Respondent, having been previously duly sworn, was examined and testified as follows:

Direct Examination

By Mr. Maiden:

Q. Mr. Lewis, would you identify this little thing I am handing you.

A. It is a label prepared for Mr. Hanisch by Lord & Thomas, as a proposed label and name for the product we were selling them, before we adopted the Stuart formula trade-mark.

(Testimony of Maxwell H. Lewis.)

Q. What does the name provide?

A. "Lewis Concentrate, made by the M. H. Lewis Company, Pasadena."

Mr. Maiden: I would like to offer this in evidence as the next exhibit.

Mr. Mackay: Let me see it.

Mr. Maiden: Yes.

Mr. Mackay: No objection. [635]

The Court: It will be received in evidence as Respondent's Exhibit X.

(The document above referred to was received in evidence and marked Respondent's Exhibit X.)

The Court: You may be excused.

(Witness excused.)

Mr. Maiden: Yesterday afternoon, if the Court please, I asked counsel for Petitioner to make available to me an opinion they received from another firm of lawyers relative to their right, that is, The Stewart Company right to make a claim to ownership of this formula.

The Court: Trade name?

Mr. Maiden: Trade name. For the same limited purpose that the Court has received in evidence the other opinion, I would like to ask this also be received in evidence. I haven't even read it. I don't know what it is.

Mr. Mackay: There is no objection.

The Court: Well, there isn't any foundation laid for it. I think you will have to call Mr. Dun-

lap to the stand and lay some foundation for the exhibit. They can't come into evidence without any evidence.

Mr. Maiden: Mr. Dunlap. [636]

Whereupon,

ROBERT H. DUNLAP

recalled as a witness for and on behalf of the Respondent, having been previously duly sworn, resumed the stand and testified further as follows:

Direct Examination

By Mr. Maiden:

Q. Mr. Dunlap, I believe on direct examination you stated that in addition to the opinion you had obtained from—what was the name of the firm?

A. Hazard & Miller.

Q. That you obtained an opinion from another firm of attorneys respecting the same question.

A. Right, I so stated.

Q. What was the name of that firm?

A. Naylor and Lassagne.

Q. Where is that firm located?

A. Of San Francisco.

Q. Will you tell the Court something about the reputation of that firm? And the type of legal work it specializes in?

A. They specialize in patent and trade-mark work. They were the patent attorneys for the Purex Company, of which Mr. Adrien Pelletier is president. Mr. Adrien Pellitier is one of the directors of The Stuart Company.

(Testimony of Robert H. Dunlap.)

Q. Did you seek the opinion from Naylor and Lassagne [637] before you did from the Miller firm?

A. Approximately the same time. I think Naylor and Lassagne's written opinion was furnished me before the opinion of Hazard & Miller, as its date shows.

Q. Now, then, did you seek the legal opinion of any other trade-mark or patent attorneys?

A. We did.

Q. What firms did you seek opinions from?

A. Lyons and Lyons.

Q. Where is that firm located?

A. Los Angeles.

Q. Did you get an opinion from them?

A. We did.

Q. When did you get the opinion from them?

A. I think a day or two before or a day or two after the Naylor and Lassagne opinion.

Q. Did you obtain an opinion from any other firm? A. No, sir.

Q. Those three would constitute the three legal firms from whom you sought advice in this matter?

A. That is correct.

Q. Were you acquainted with the firm of Naylor and Lassagne?

A. I had not had that pleasure until Mr. Pelletier mentioned the name of the firm to me. [638]

Q. Did you make any effort to determine the reliability and competency of the firm to render the opinion asked?

(Testimony of Robert H. Dunlap.)

A. I would assume if Mr. Pelletier thought they were capable, they were.

Q. You made no investigation yourself?

A. Not independently, no. I assume they have a good reputation. They impressed me as being reputable attorneys.

Q. Is this the opinion in which you state they took an opposite view from the opinion of Hazard & Miller.

A. It is.

Mr. Maiden: Upon those identifications of the document I would like to have it go in evidence solely for the same limited purpose that the other opinion was in evidence.

The Court: May I see Exhibit 13, please?

The Clerk: 13?

The Court: Yes.

The Clerk: Yes, your Honor.

The Court: Did you submit to Hazard & Miller a copy of the agreement of May 5, 1941, when you asked them for your opinion?

The Witness: I did, your Honor.

The Court: Which is Exhibit 13?

The Witness: Yes, your Honor, I did.

The Court: You submitted that agreement also to the other firm of Naylor & Lassagne? [639]

The Witness: Yes, your Honor.

The Court: Now, to make this complete, do you want to offer it in evidence, Mr. Mackay, the third opinion?

Mr. Mackay: It is substantially the same as Naylor & Lassagne. They agreed with Naylor &



(Testimony of Robert H. Dunlap.)

Lassagne. If the Court wants it, I will have it available.

Mr. Maiden: Let's have it.

The Court: It is cumulative.

Mr. Maiden: I don't know whether it is cumulative or not. Mr. Mackay has insisted in interjecting in this case the opinions of lawyers. He put in one that is favorable to him. He has two others that are unfavorable.

Mr. Mackay: I have no objection to putting them in.

Mr. Maiden: I would like to have them in.

The Court: The last offer of the Respondent is received as Respondent's Exhibit Y.

(The document above referred to was received in evidence and marked Respondent's Exhibit Y.)

Mr. Dunlap: I am sorry, your Honor——

The Court: While you are looking for that, is there anything further? Are there any other witnesses?

Mr. Mackay: Are you through after that?

Mr. Maiden: Yes. The Respondent rests, if the Court please.

(Witness excused.) [640]

Mr. Mackay: I have, your Honor, two short witnesses; very short.

The Court: Well, then I think it will be well to call them at this time so we don't waste any time. You can look for the other exhibit.

Mr. Mackay: I will call Mr. Hanisch.

Whereupon,

ARTHUR HANISCH

recalled as a witness for and on behalf of the Petitioner, having been previously duly sworn, was examined and testified further as follows:

Direct Examination

By Mr. Mackay:

Q. Mr. Hanisch, you just heard Mr. Lewis' testimony with respect to the creation of the name of Stuart formula? A. Yes, I did.

Q. I will ask you if he suggested that that name include the name of your son Stuart in the Stuart formula?

A. That name was arrived at in a conference in which Mr. Pringle of Lord & Thomas, Mr. Lewis and I each had suggested several names. And it was arrived at at that conference. Mr. Pringle was present with me and Mr. Lewis. Now, who suggested—whose suggestion it was, I don't know. It came as a result of the discussion between the three of us.

Q. You heard Mr. Lewis testify with respect to a proposed [641] agreement modifying the agreement of May 5, 1941? A. I did.

Q. The proposed agreement having been submitted to you some time in July of 1942?

A. That is right.

(Testimony of Arthur Hanisch.)

Q. And then he came to your home and you had some discussions about it? A. Yes.

Q. Will you please tell the Court briefly what your conversation with Mr. Lewis was at that time?

A. I had gone over the thing very thoroughly and had discussed it with Mr. Dunlap prior to this meeting. And between us we had worked out—I don't recall the number of objections I had to the contract—Mr. Lewis stated very definitely it was 21. I don't recall.

I know there was an outlined list of objections to the terms of that contract. And I remember reading some of the objections, and Mr. Lewis said, "Well, we are giving you an interest in the trade-mark but the terms of the contract, revised, and offered, were still so onerous, in spite of an offer to give me an interest in the trade-mark, I still could not accept that revision.

Q. You rejected it at that time?

A. I rejected it.

Q. Mr. Lewis stated you rejected it. Wait a minute. I [642] will ask you, Mr. Hanisch, if you at your conferences of negotiations with Mr. Wiseman ever offered to purchase the Stuart formula?

A. No.

Q. You heard Mr. Wiseman state you had offered \$100,000.00 for it? A. Yes.

Q. Is that correct? A. No.

Q. Did you ever make an offer to purchase the Stuart formula from Mr. Wiseman? A. No.

Mr. Mackay: I think that is all.

(Testimony of Arthur Hanisch.)

Mr. Maiden: No questions.

The Court: All right.

(Witness excused.)

Mr. Maiden: If the Court please, in view of all the time it has taken to look for that other opinion by Lyons & Lyons, I withdraw my request, it may be furnished in evidence. I don't want to take up any more time. I don't think those opinions of those lawyers are worth a dime in this case.

Mr. Dunlap: I am sorry, your Honor. I wasn't able to put my hands on it. [643]

Whereupon,

#### ROBERT H. DUNLAP

recalled as a witness for and on behalf of the Petitioner, having been previously duly sworn, resumed the stand and testified further as follows:

#### Direct Examination

By Mr. Mackay:

Q. Mr. Dunlap, I think you were here in Court when Mr. Wiseman testified? A. I was.

Q. Did you hear him testify in effect that Vita-Food Corporation had offered to cancel the contract? A. I did.

Q. Did he ever offer that to you?

A. No, sir, he did not.

Q. Did he ever make that suggestion?

A. No, sir, he did not.

Q. Now, when you were in your office carrying

(Testimony of Robert H. Dunlap.)

on negotiations and began to reduce the agreement to writing, who assisted in drafting the contract?

A. Mr. Wiseman and I were working together. I would state a statement as to how I wanted it, and if he had no objection he would say, "Go ahead." And then we would come to the next paragraph. And I would make a suggestion and he would say, "No, put this one down." So I put what he had. [644]

I said, "This is going to be a draft, anyhow. We will have a chance to work out our disagreement all right. For the moment let's put this one down."

Q. Was that contract joint dictation by both of you? A. It was.

Q. You are familiar with the drafts of the contract put in the record here, are you not?

A. I am somewhat ashamed of the typewriting.

Q. Were those drafts agreeable to you?

A. The first one was not.

Q. In what respect?

A. Well, the word "sell" is used. I very carefully kept out all reference to any sale of anything.

Q. How about the second one?

A. The second one was unsatisfactory in that the mutual release, the important item, was at the end of the agreement, rather than at the beginning; the cancellation of the contract.

Q. Now, were you present with Mr. Hanisch at that time, all the time he was discussing the problems with Mr. Wiseman? A. I was.

Q. Did you hear Mr. Hanisch offer at that time



(Testimony of Robert H. Dunlap.)

or any time prior to purchase the Stuart formula?

A. He never did.

Q. For any price?

A. For any price. [645]

Q. Did you make that offer? A. I did not.

The Court: Now you are talking about the trade-mark?

Mr. Mackay: The trade-mark, yes, your Honor. Thank you. I think that is all.

### Cross-Examination

By Mr. Maiden:

Q. Mr. Dunlap, what did you think the provision in the contract meant, that you were receiving a quitclaim to the Stuart formula from Vita-Food?

A. I believed we owned the trade name at that time, that The Vita-Food Corporation, by reason of its registration in Washington, that some record should be cleared on that.

Q. Well, then, you understood you were getting under that contract, the agreement of November 28, 1942, whatever right and title Vita-Food may have had in and to this Stuart formula, is that right?

A. I didn't think we were getting any title, because I didn't think they had any title.

Q. Why did you want a quitclaim then?

A. Because I wanted once and for all to divorce The Stuart Company from The Vita-Food Corporation, and The Vita-Food Corporation was asserting

(Testimony of Robert H. Dunlap.)

what I believed to be an invalid claim to a trade-mark, which was one of the things we had used [646] in our business.

Q. Well, then, you simply wanted the quitclaim then for the purpose of removing any cloud from your alleged title to the Stuart formula, is that right?

A. That is not entirely correct. The difference is so small I will accept your statement and agree with it.

Q. Now, Mr. Dunlap, just one thing further. This firm of attorneys, Lyons & Lyons, from whom you got a third opinion which disagreed with the Hazard & Miller opinion, where is that firm of attorneys located?

A. Signal Oil Building, Los Angeles, on 7th Street between Figueroa and Flower.

Q. What do you know about the reputation of that firm and the type and character of legal practice it engages in?

A. A very fine firm, one of the outstanding firms in Southern California.

Q. Do they specialize in patent and trade-mark law?

A. They do.

Mr. Maiden: That is all.

Mr. Mackay: That is all.

(Witness excused.)

Mr. McGregor: Before the case is closed, your Honor, we would like to offer as an amendment to the petition another document for the purpose of—

in case the Court finds all the amounts payable under the contract of November 28, 1942, is [647] accrued, accruable expense that it will show there are losses for the fiscal year 1943, which should be carried over as operating losses under the carry-over provisions of the statute.

We would like to offer this amendment for that purpose.

Mr. Maiden: I have no objection to the amendment being filed, if the Court please.

The Court: An amendment to the petition is filed at the hearing for the case was called on January 26. This is the second amendment to the petition?

Mr. McGregor: The first one was an amended petition. This is amendment to the petition.

The Court: They are all amendments. This is your second amendment.

The Clerk: Shall I mark this second amendment?

The Court: Did you say you had no objection?

Mr. Maiden: No objection to the filing.

The Court: You may mark that second amendment. There is no objection. You may file an answer in due course. The clerk will serve a copy on you today.

The Clerk: Amendment and amendment to the petition has been marked such.

The Court: Now you have something else?

Mr. McGregor: We have the 90-day letter which we would like to put in evidence, to show that—— [648]

The Court: Is it necessary? Did you make a complete copy of your 90-day letter attached to the petition?

Mr. McGregor: There is a copy attached to the first petition.

The Court: It is not necessary for you to offer it in evidence if you have a copy.

Mr. McGregor: If that is considered in evidence, that is agreeable with us.

The Court: You want to have it regarded as in evidence?

Mr. McGregor: Yes.

The Court: All right. Well then, we can receive it. That will be the next exhibit of the Petitioner.

The Clerk: 21.

(The document above referred to was received in evidence and marked Petitioner's Exhibit No. 21.)

Mr. McGregor: We would like to offer into evidence a certificate of the payments of the taxes by the collector of The Stuart Company for the years here under review.

The Court: Very well. That is received as Exhibit 22.

(The document above referred to was received in evidence and marked Petitioner's Exhibit No. 22.)

Mr. McGregor: Counsel for the government has been furnished a copy of this. [649]

Mr. Maiden: No objection.

Mr. Mackay: At this time we are very happy to bring this case to a conclusion. We rest.

Mr. Maiden: I am so delighted I am almost speechless to be through.

Mr. McCloskey: If your Honor please, my name is Paul McCloskey. As your Honor knows, there is pending in the Department a tax matter in which Vita-Food Corporation is the taxpayer and in which the negotiations relative to settlement of a claimed deficiency are yet unfinished and more or less depend on the outcome of this action before your Honor.

It is easily understood that Vita-Food Corporation is very much interested in the outcome of this particular proceeding. I am the attorney of fact of record before the Department for Vita-Food Corporation.

I respectfully request leave to file a brief of a friend of the Court, on behalf of the Respondent.

The Court: Under the rules of the Court that motion may be granted. We always like to have written motions filed, Mr. McCloskey, if you will be so kind as to bring in a written motion next week, it will be granted.

Mr. McCloskey: Thank you, your Honor.

The Clerk: Let the record show that a copy of the second amendment to the petition is being served on the parties.

The Court: Will the clerk please read the dates of [650] the briefs?

The Clerk: The original brief of the Petitioner will be due on March 16th. The Respondent will reply thereto on April 16th. The Petitioner will



reply to Respondent's brief May 17th.

Mr. Maiden: If the Court please, I would like to ask permission of the Court, in view of the length and importance of this case, and also in view of the fact I am still two briefs behind from my last two trials last month, that the parties be given 60 days for opening briefs and 30 days for reply briefs.

The Court: Mr. Maiden, it is not possible for me to grant that request. I would like to, if I possibly could. If you find that it is necessary to file a motion asking the Court to receive a late brief, I shall of course, give that very careful consideration. I usually grant those motions. And then the time is extended correspondingly for the other party, when one party gets an extension of time.

Is there anything further in this proceeding?

Mr. Maiden: Nothing further from the respondent.

The Court: That concludes the trial of the case of The Stuart Company.

(Whereupon, at 5:40 o'clock p.m., Saturday, January 31, 1948, the hearing in the above-entitled matter was closed.)

Filed T.C.U.S. February 29, 1948. [651]

In the United States Court of Appeals  
for the Ninth Circuit  
Tax Court Docket No. 12473

THE STUART COMPANY,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,  
Respondent.

PETITION FOR REVIEW OF DECISION OF  
THE TAX COURT OF THE UNITED  
STATES

To the Honorable Judges of the United States  
Court of Appeals for the Ninth Circuit:

The Stuart Company, by and through its attorneys, hereby petitions the United States Court of Appeals for the Ninth Circuit to review the decision entered by The Tax Court of the United States on September 22, 1950, “\* \* \* that there is a deficiency in excess profits tax for the fiscal year ended March 31, 1944, in the amount of \$1,507.08; and that there are deficiencies in income tax, in declared value excess profits tax, and in excess profits tax for the fiscal year ended March 31, 1945, in the amounts of \$10.79, \$6,591.80, and \$67,535.53, respectively,” in respect of the federal tax liability of the petitioner, The Stuart Company. This petition for review is filed pursuant to the provisions of Sections 1141 and 1142 of the Internal Revenue Code.

## I.

## Nature of the Controversy

The issue presented below was whether the Commissioner of Internal Revenue erred in determining that amounts paid by petitioner to The Vita-Food Corporation under an agreement dated November 28, 1942, constituted payments for the acquisition of a capital asset and should therefore be capitalized, or whether said payments were in fact made to secure a release from an onerous contract and should therefore be allowed as a deduction from petitioner's gross income as a business expense.

Petitioner on the 5th day of May, 1941, entered into a contract with The Vita-Food Corporation wherein and whereby petitioner was granted the exclusive right to sell vitamin products to be furnished by The Vita-Food Corporation. This contract was to continue for a period of 10 years. Under the terms of the contract petitioner was required to purchase all of its vitamin products from The Vita-Food Corporation. The contract specified the prices petitioner was to pay for such products, as well as the prices at which petitioner could resell them. It also provided, in paragraph 6, that The Vita-Food Corporation could terminate petitioner's exclusive right if petitioner failed during any 60-day period after November 1, 1941, to purchase a minimum number of pints of vitamin products per day. Thereafter and in the early part of 1942 controversies arose between the petitioner and The Vita-Food Corporation regarding the ful-

fillment of quota requirements and the quality of the products. These controversies continued for many months, and on the 8th day of October, 1942, The Vita-Food Corporation, by letter, advised petitioner that since petitioner had failed to meet its quotas, its "exclusive right to sell under the said contract is hereby terminated," but "in all other respects the contract remains in full force and effect."

Thereafter and on October 10, 1942, the petitioner ascertained that it could purchase superior products of the same general character at prices substantially less than those fixed in the 1941 contract.

Thereafter and on the 12th day of October, 1942, petitioner advised The Vita-Food Corporation that it would not accept the partial termination, but that if petitioner should not be able to reinstate the contract by removing the shortages in quotas within a period of 60 days, petitioner would regard the contract as terminated for all purposes. As a result of these communications, negotiations were carried on between the parties, in which threats were made by petitioner to institute legal proceedings. Petitioner's counsel commenced the preparation of a complaint against The Vita-Food Corporation for a rescision of the agreement upon the grounds of fraud and misrepresentation. On November 23, 1942, notice of rescision of the 1941 agreement was served by The Stuart Company and Arthur Hanisch upon The Vita-Food Corporation. Two days thereafter The Vita-Food Corporation instituted an action in the Superior Court against petitioner at-



tempting to enjoin it from using the trade-mark "The Stuart Formula." Petitioner then, through its attorney, immediately began to draft counter-complaints against The Vita-Food Corporation. Extensive negotiations followed, principally between the attorney for petitioner and the attorney for The Vita-Food Corporation, which resulted in a contract entitled "Agreement of Settlement of Litigation and Cancellation of Contract." Said contract was dated November 28, 1942, and effected a cancellation of the contract of May 5, 1941.

By the terms of the settlement agreement petitioner agreed to pay to The Vita-Food Corporation \$75,000.00, \$35,000.00 down and \$4,000.00 per month for ten months, and an additional sum of \$122,700.00 payable in installments measured by 7½¢ per unit of vitamin products thereafter sold by petitioner, whether sold under the name of "The Stuart Formula" or not. Petitioner did make such payments as above provided.

Under the terms of the contract of settlement, The Vita-Food Corporation quitclaimed without warranty and agreed, if thereafter requested by petitioner, to assign all of its right, title and interest in and to the name "The Stuart Formula" and that if the name "The Stuart Formula" was ever to be abandoned it was to revert back to The Vita-Food Corporation. An assignment was given on the 24th day of June, 1943. The Vita-Food Corporation and Mr. Lewis, its principal officer, agreed also to transfer to petitioner 300 shares of stock of petitioner which were then owned by Mr. Lewis. Under



the terms of the contract each of the parties agreed to and did release the other from any and all liabilities of every kind, nature and description.

The Tax Court held that the \$75,000.00 represented payment for the cancellation of an onerous contract and was therefore deductible by petitioner. Petitioner offered evidence which was uncontradicted with respect to the value of the trade-mark as well as the value of the 300 shares of stock of petitioner as a basis for determining what portion of the total consideration under the contract should properly be allocated to cancellation of the agreement of May 5, 1941.

The Tax Court, in accordance with its established rule of law, accepted the testimony of petitioner's witnesses with respect to the value of the stock so acquired from Mr. Lewis, but it failed and neglected to consider the uncontradicted testimony of petitioner's expert witnesses with respect to the value of the trade-mark. The uncontradicted testimony shows that the trade-mark had no value whatsoever and that it would require not more than \$20,000.00 to establish a trade-mark equivalent to the trade-mark of "the Stuart Formula." The officers of petitioner testified that they did not pay, and would not have paid, in excess of that amount for the trade-mark "The Stuart Formula"; that they had under active consideration the adoption of a new trade-mark and had commenced artwork on a label for a new trade-mark; and that the quitclaim of The Vita-Food Corporation's interest in "The Stuart Formula" was inconsequential and a minor factor in-

cidental to the cancellation of the agreement of May 5, 1941. Notwithstanding this, The Tax Court determined that petitioner obligated itself to pay the full amount of \$122,700.00 for the purchase of the trade-mark "The Stuart Formula."

The petitioner is aggrieved by The Tax Court's Findings of Fact and Opinion and by its Decision, in that an arbitrary determination was made by the Court that \$122,700.00 was paid by petitioner for the purchase of a trade-mark, "The Stuart Formula," and of the total payment but \$75,000.00 was paid to secure cancellation of the onerous contract. There is no evidence in the record to support such an allocation between capital expenditure and deductible business expense. The evidence clearly compels a finding that the total payment of \$197,700.00, or substantially all thereof, was made for the sole purpose of securing a release from an onerous contract and should therefore be allowed petitioner as a deductible business expense. The Tax Court erred in failing to so hold.

## II.

### Court in Which Review Is Sought

The United States Court of Appeals for the Ninth Circuit is the Court in which review of said decision of The Tax Court is sought pursuant to the provisions of Section 1141 of the Internal Revenue Code.

## III.

## Venue

The Memorandum Findings of Fact and Opinion of The Tax Court were entered on June 30, 1950, and the Decision of The Tax Court was entered on September 22, 1950. Petitioner's income tax, declared value excess profits tax and excess profits tax returns for the years ending March 31, 1943, through March 31, 1945, inclusive, were filed with the Collector of Internal Revenue for the Sixth District of California, whose office is located at Los Angeles, California, within the jurisdiction of the United States Court of Appeals for the Ninth Circuit. The petitioner is a California corporation with its principal place of business located at Pasadena, County of Los Angeles, State of California.

The parties hereto have not stipulated that said Decision may be reviewed by any Court of Appeals other than the one herein designated.

Wherefore, petitioner prays that the Findings of Fact and Opinion and the Decision of The Tax Court be reviewed by the United States Court of Appeals for the Ninth Circuit; that a transcript of the record be prepared in accordance with the law and rules of said Court and transmitted to the Clerk of said Court for filing; and that appropriate action be taken to the end that the errors

complained of may be reviewed and corrected by said Court.

Dated December 22, 1950.

/s/ A. CALDER MACKAY,

/s/ ARTHUR McGREGOR,

/s/ HOWARD W. REYNOLDS,

/s/ ADAM Y. BENNION,

/s/ RICHARD N. MACKAY,

/s/ F. EDWARD LITTLE,

Attorneys for Petitioner.

Filed T.C.U.S. December 21, 1950.

---

[Title of Court of Appeals and Cause.]

NOTICE OF FILING PETITION FOR  
REVIEW

To Charles Oliphant, Chief Counsel, Bureau of Internal Revenue, Washington, D. C.:

You are hereby notified that the petitioner on the 21st day of December, 1950, filed with the Clerk of The Tax Court of the United States at Washington, D. C., a Petition for Review by the United States Court of Appeals for the Ninth Circuit of the Findings of Fact and Opinion and the Decision of The Tax Court of the United States heretofore rendered in the above-entitled cause. A copy of the

Petition for Review, as filed, is hereto attached and served upon you.

Dated December 22, 1950.

/s/ A. CALDER MACKAY,  
/s/ ARTHUR MCGREGOR,  
/s/ HOWARD W. REYNOLDS,  
/s/ ADAM Y. BENNION,  
/s/ RICHARD N. MACKAY,  
/s/ F. EDWARD LITTLE,

Attorneys for Petitioner.

Receipt of Copy acknowledged.

Filed T.C.U.S. December 22, 1950.

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[Title of Court of Appeals and Cause.]

DESIGNATION OF CONTENTS OF RECORD  
ON REVIEW

To the Clerk of The Tax Court of the United  
States:

Comes Now the petitioner on review herein, by its attorneys, A. Calder Mackay, Arthur McGregor, Howard W. Reynolds, Adam Y. Bennion, Richard N. Mackay and F. Edward Little, and hereby designates for inclusion in the record on review in the above-entitled proceeding the complete record of all of the proceedings and evidence taken before The Tax Court of the United States and all matters required by Rule 75(g) of the Federal Rules of Civil Procedure, including the following:

1. Docket entries of the proceedings before The Tax Court.



2. Pleadings:

(a) Petition, including annexed copy of deficiency notice.

(b) Answer.

(c) Amended Petition.

(d) Answer to Amended Petition.

(e) Amendment to Petition.

(f) Answer to Amendment to Petition.

3. Memorandum Findings of Fact and Opinion promulgated June 30, 1950.

4. Decision entered September 22, 1950.

5. Official report of hearing before The Tax Court on January 28, 29, 30 and 31, 1948.

6. All exhibits.

7. Petition for Review and Notice of Filing Petition for Review.

8. This Designation of Contents of Record on Review.

Wherefore, it is requested that copies of the record as above designated be prepared and transmitted to the United States Court of Appeals for the Ninth Circuit in accordance with the rules of said Court.

Dated December 22, 1950.

/s/ A. CALDER MACKAY,

/s/ ARTHUR McGREGOR,

/s/ HOWARD W. REYNOLDS,

/s/ ADAM Y. BENNION,

/s/ RICHARD N. MACKAY,

/s/ F. EDWARD LITTLE,

Attorneys for Petitioner.

Receipt of Copy acknowledged.

Filed T.C.U.S. December 21, 1950.

[Title of Court of Appeals and Cause.]

### PETITION FOR REVIEW

To the Honorable Judges of the United States  
Court of Appeals for the Ninth Circuit:

The Commissioner of Internal Revenue hereby petitions the United States Court of Appeals for the Ninth Circuit to review the decision entered by The Tax Court of the United States on September 22, 1950, ordering and deciding that there are no deficiencies in income tax, in declared value excess-profits tax, or in excess profits tax for the fiscal year ended March 31, 1943; that there is a deficiency in excess profits tax for the fiscal year ended March 31, 1944, in the amount of \$1,507.08; and that there are deficiencies in income tax, in declared value excess profits tax, and in excess profits tax for the fiscal year ended March 31, 1945, in the amounts of \$10.79, \$6,591.80, and \$67,535.53, respectively.

The respondent on review, The Stuart Company, is a corporation with its principal office at 234 East Colorado Street, Pasadena 1, California. It filed its corporation income and declared value excess-profits tax returns and its corporations excess profits tax returns for the fiscal years ended March 31, 1943; March 31, 1944, and March 31, 1945, with the Collector of Internal Revenue for the Sixth District of California, whose office is located at Los Angeles, California, and within the judicial circuit of the United States Court of Appeals for the Ninth Circuit, where this review is sought.

## Nature of Controversy

The issue is whether certain payments made by taxpayer, The Stuart Company, during the years in question were made, either in part or in whole, to secure the cancellation of an onerous contract; or whether they were made, either in part or in whole, for the purchase of a trade-mark. The Commissioner contends that the entire payments were capital expenditures made to purchase a trade-mark and are therefore non-deductible. The taxpayer contends that the entire payments were ordinary and necessary business expenses made to secure relief for an onerous contract and are therefore deductible. The Tax Court found that the taxpayer was primarily obligated to pay \$75,000 to Vita-Food under the contract of November 28, 1942, in order to secure the cancellation of an onerous contract, and that it was also primarily obligated to pay \$122,700 to Vita-Food under the contract of November 28, 1942, for the purchase of the trade-mark "The Stuart Formula." The Tax Court accordingly held that \$75,000 paid by the taxpayer to secure the cancellation of an onerous contract is properly deductible during the fiscal year 1943 as an ordinary and necessary business expense, and that \$12,700 which the taxpayer was obligated to pay for the purchase of a trade-mark is a capital

expenditure which is not deductible as an ordinary and necessary business expense.

/s/ THERON L. CAUDLE, C.A.R.  
Assistant Attorney General.

/s/ CHARLES OLIPHANT, C.A.R.  
Chief Counsel, Bureau of Internal Revenue.

Filed T.C.U.S. December 21, 1950.

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[Title of Court of Appeals and Cause.]

### NOTICE OF FILING PETITION FOR REVIEW

To: The Stuart Company, 234 East Colorado Street,  
Pasadena 1, California.

You are hereby notified that the Commissioner of Internal Revenue did, on the 21st day of December, 1950, file with the Clerk of The Tax Court of the United States, at Washington, D. C., a petition for review by the United States Court of Appeals for the Ninth Circuit of the decision of the Tax Court heretofore rendered in the above-entitled cause. A copy of the petition for review as filed is hereto attached and served upon you.

Dated this 21st day of December, 1950.

/s/ CHARLES OLIPHANT, C.A.R.  
Chief Counsel, Bureau of Internal Revenue, Counsel  
for Petitioner on Review.

Receipt of Copy Acknowledged.

Received and Filed T.C.U.S. December 28, 1950.

[Title of Court of Appeals and Cause.]

NOTICE OF FILING PETITION  
FOR REVIEW

To: A. Calder Mackay, Esq., 728 Pacific Mutual  
Building, 523 West Sixth Street, Los Angeles  
14, California.

You are hereby notified that the Commissioner of Internal Revenue did, on the 21st day of December, 1950, file with the Clerk of The Tax Court of the United States, at Washington, D. C., a petition for review by the United States Court of Appeals for the Ninth Circuit of the decision of the Tax Court heretofore rendered in the above-entitled cause. A copy of the petition for review as filed is hereto attached and served upon you.

Dated this 21st day of December, 1950.

/s/ CHARLES OLIPHANT, C.A.R.  
Chief Counsel, Bureau of Internal Revenue, Coun-  
sel for Petitioner on Review.

Receipt of Copy Acknowledged.

Filed T.C.U.S. December 28, 1950.

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[Title of Court of Appeals and Cause.]

STATEMENT OF POINTS

Comes Now the petitioner on review herein and makes this concise statement of points on which he intends to rely on the review herein, to wit:

The Tax Court of the United States erred:

1. In holding that the taxpayer was obligated to



pay \$75,000 to Vita-Food under the contract of November 28, 1942, in order to secure the cancellation of an onerous contract and that this amount is properly deductible during the fiscal year 1943 as an ordinary and necessary business expense.

2. In holding that the taxpayer was obligated to pay only \$122,700 to Vita-Food under the contract of November 28, 1942, for the purchase of the trade-mark "The Stuart Formula" and that only this amount is a capital expenditure which is not deductible as an ordinary and necessary business expense.

3. In failing to uphold the determination of the Commissioner that the entire payments of \$197,700 (\$122,700 plus \$75,000) were capital expenditures made to purchase a trade-mark and are therefore non-deductible.

4. In that its decision is not supported by the evidence.

5. In that its decision is contrary to law and regulations.

/s/ THERON L. CAUDLE, C.A.R.  
Assistant Attorney General.

/s/ CHARLES OLIPHANT, C.A.R.  
Chief Counsel, Bureau of Internal Revenue. Coun-  
sel for Petitioner on Review.

Statement of Service Attached.

Filed T.C.U.S. January 8, 1951.

[Title of Court of Appeals and Cause.]

STATEMENT OF  
NON-DIMINUTION OF RECORD

To the Clerk of The Tax Court of the United States:

Pursuant to the provisions of Rule 75(o) of the Federal Rules of Civil Procedure adopted by the United States Court of Appeals for the Ninth Circuit, you are hereby notified that the Commissioner of Internal Revenue, in connection with the petition for review heretofore filed by him in the above-entitled proceedings, agrees to the designation of contents of record on review filed by the taxpayer, The Stuart Company, in respect to the petition for review likewise filed by it, and, in addition to the documents called for in the latter designation, hereby designates the following for inclusion in the review record:

1. Commissioner's petition for review.
2. Notices of filing petition for review.
3. Statement of points.
4. This statement of non-diminution of record.

/s/ THERON L. CAUDLE, C.A.R.  
Assistant Attorney General.

/s/ CHARLES OLIPHANT, C.A.R.  
Chief Counsel, Bureau of Internal Revenue, Counsel for Petitioner on Review.

Statement of Service attached.

Filed T.C.U.S. January 8, 1951.

[Title of Court of Appeals and Cause.]

STATEMENT OF POINTS AND DESIGNA-  
TION OF PARTS OF THE RECORD TO  
BE PRINTED

Comes Now The Stuart Company, petitioner on review herein, by its attorneys, A. Calder Mackay, Arthur McGregor, Howard W. Reynolds, Adam Y. Bennion, Richard N. Mackay and F. Edward Little, and states that the points on which it intends to rely in this case are as follows:

1. The Tax Court erred in holding and deciding that \$122,700.00 was paid by petitioner under the cancellation agreement of November 28, 1942, for the purchase of a trade-mark "The Stuart Formula."

2. The Tax Court erred in allocating any more than a nominal portion of the total payment of \$197,700.00 made by the petitioner under the cancellation agreement of November 28, 1942, to the acquisition of any capital asset.

3. The Tax Court erred in failing and refusing to hold and decide that all of said \$197,700.00 paid by petitioner under the cancellation agreement of November 28, 1942, or at least substantially all thereof, was paid by petitioner to secure cancellation of an onerous contract, and in further failing to hold the same is deductible as an ordinary and necessary business expense under Section 23(a) of the Internal Revenue Code.

4. The Tax Court erred in determining any deficiency in income tax, declared value excess profits, or excess profits tax for either the fiscal year ended March 31, 1944, or the fiscal year ended March 31, 1945.

5. The Tax Court erred in that its Findings of Fact and Opinion are not supported by, but are contrary to, the evidence, to wit, The Tax Court found and held that petitioner paid \$122,700.00 for the trade-mark "The Stuart Formula," whereas the evidence established that the petitioner, as the exclusive user of said trade-mark, had experienced increasing net operating losses over a nineteen-month period aggregating \$15,451.56, that said trade-mark was of no value, that petitioner regarded the trade-mark as in ill-repute, that petitioner was considering the adoption of a new trade-mark once it was freed of its contractual obligation to buy products only from The Vita-Food Corporation, that acquisition by petitioner of whatever interest The Vita-Food Corporation had in said trade-mark was an inconsequential feature of the settlement agreement, and that petitioner did not pay, and would not have paid, any but a nominal consideration for said trade-mark.

6. The Tax Court erred in that its Findings of Fact are inconsistent one with another, and its Opinion is contrary to its Findings of Fact, to wit, The Tax Court found that the stock of the petitioner was worthless on the date of the settlement agreement, November 28, 1942, but notwithstanding this finding (which was amply supported by evi-

dence) The Tax Court found and held that petitioner, which had been the exclusive licensee with the sole right to use the trade-mark "The Stuart Formula," paid the sum of \$122,700.00 for whatever interest The Vita-Food Corporation had in said trade-mark, thereby apparently (and erroneously) inferring that the trade-mark had sufficient value to justify such a price, which inference is repugnant to the finding that petitioner's stock had no value on that date.

7. The Tax Court erred in disregarding and ignoring uncontradicted testimony of expert and other witnesses which established that the trade-mark "The Stuart Formula" had no value on the date of the settlement agreement, November 28, 1942, or at most a nominal value.

8. The Tax Court's Findings of Fact, Opinion and Decision are contrary to the recognized and settled rule of law, that a lump sum paid under a contract is to be allocated among the respective considerations received for such sum in accordance with the relative values of said respective considerations; and since the uncontradicted testimony in this record established that the trade-mark "The Stuart Formula" had no value or only a nominal value, The Tax Court erred as a matter of law in allocating any of the payments (or more than a nominal part) as the purchase price thereof.

9. The Tax Court's Findings of Fact, Opinion and Decision, in so far as they hold that petitioner obligated itself to purchase the trade-mark "The



Stuart Formula'' in consideration of the sum of \$122,700.00, are arbitrary and are based upon an erroneous interpretation of the settlement agreement of November 28, 1942, in that said agreement specifies that if petitioner should abandon said trade-mark, as was actively under consideration by petitioner, the trade-mark would become the property of The Vita-Food Corporation, but notwithstanding this the petitioner would still have been liable under said contract to pay to The Vita-Food Corporation the said sum of \$122,700.00.

10. The Tax Court erred in that its Opinion and Decision are contrary to law.

Petitioner hereby designates the entire record, as certified to the Clerk of the above-entitled Court, as necessary to be printed for the consideration of the points set forth above, including this Statement of Points and Designation.

Dated January 12, 1951.

/s/ A. CALDER MACKAY,

/s/ ARTHUR McGREGOR,

/s/ HOWARD W. REYNOLDS,

/s/ ADAM Y. BENNION,

/s/ RICHARD N. MACKAY,

/s/ F. EDWARD LITTLE,

Attorneys for Petitioner.

Acknowledgment of Service attached.

Filed T. C. U. S. January 15, 1951.

[Title of Court of Appeals and Cause.]

FURTHER DESIGNATION OF CONTENTS  
OF RECORD ON REVIEW

To the Clerk of The Tax Court of the United States:

In addition to the matters designated by The Stuart Company for inclusion in record on review, in the "Designation of Contents of Record on Review" heretofore filed by said Stuart Company, The Stuart Company hereby designates for inclusion in said record on review the following additional documents:

1. Statement of Points and Designation of Parts of the Record to Be Printed.
2. This Further Designation of Contents of Record on Review.

Dated: January 12, 1951.

/s/ A. CALDER MACKAY,  
/s/ ARTHUR MCGREGOR,  
/s/ HOWARD W. REYNOLDS,  
/s/ ADAM Y. BENNION,  
/s/ RICHARD N. MACKAY,  
/s/ F. EDWARD LITTLE,  
Attorneys for Petitioner.

Acknowledgment of service attached.

Filed T.C.U.S. January 15, 1951.

[Title of Tax Court and Cause.]

### CERTIFICATE

I, Victor S. Mersch, Clerk of The Tax Court of the United States do hereby certify that the foregoing documents, 1 to 25, inclusive, constitute and are all of the original papers and proceedings, including all original exhibits, 1 thru 22, and A thru Y, admitted in evidence on file in my office as called for by the designations of record on review in the proceedings before The Tax Court of the United States entitled: "The Stuart Company, Petitioner, v. Commissioner of Internal Revenue, Respondent," Docket No. 12473 and "Commissioner of Internal Revenue, Petitioner, v. The Stuart Company, Respondent," Docket No. 12473, and in which the petitioner and respondent in The Tax Court have initiated appeals as above numbered and entitled, together with a true copy of the docket entries in said Tax Court proceedings, as the same appear in the official docket book in my office.

In testimony whereof, I hereunto set my hand and affix the seal of The Tax Court of the United States, at Washington, in the District of Columbia, this 16th day of January, 1951.

[Seal]        /s/ VICTOR S. MERSCH,  
                 Clerk.

[Endorsed]: No. 12845. United States Court of Appeals for the Ninth Circuit. The Stuart Company, a Corporation, Petitioner, vs. Commissioner of Internal Revenue, Respondent, vs. Commissioner of Internal Revenue, Petitioner, vs. The Stuart Company, a Corporation, Respondent. Transcript of the Record. Petitions to Review a Decision of The Tax Court of the United States.

Filed: January 29, 1951.

/s/ PAUL P. O'BRIEN,  
Clerk of the United States Court of Appeals for  
the Ninth Circuit.

[Title of Court of Appeals and Cause.]

STATEMENT ADOPTING "STATEMENT OF  
POINTS AND DESIGNATION OF PARTS  
OF THE RECORD TO BE PRINTED"

Comes Now The Stuart Company, petitioner on review herein, by its attorneys, and hereby adopts the "Statement of Points and Designation of Parts of the Record to Be Printed," filed by it with the Clerk of The Tax Court of the United States on January 15, 1951, which is included in the record on review herein as Document No. 24, except that the designation therein of the entire record as necessary to be printed shall be deemed to be amended by the "Stipulation and Order Re Exhibits" submitted herewith, whereby the parties stipulate that the original exhibits may be excluded from the printed record.

Dated: February 19, 1951.

/s/ A. CALDER MACKAY,

/s/ ARTHUR MCGREGOR,

/s/ HOWARD W. REYNOLDS,

/s/ ADAM Y. BENNION,

/s/ RICHARD N. MACKAY,

/s/ F. EDWARD LITTLE,

Attorneys for Petitioner.

[Endorsed]: Filed February 20, 1951.



[Title of Court of Appeals and Cause.]

## STIPULATION AND ORDER

### Re Exhibits

It is hereby agreed and stipulated by counsel in the above-entitled cases that the original exhibits may be excluded from the printed record but may be referred to by the parties in brief and argument as if part of that record.

/s/ THERON LAMAR CAUDLE,  
Assistant Attorney General, Counsel for Commis-  
sioner of Internal Revenue.

/s/ A. CALDER MACKAY,  
Counsel for The Stuart  
Company.

So ordered February 20, 1951.

/s/ WILLIAM DENMAN,

/s/ W. E. ORR,

/s/ WALTER L. POPE,  
Judges, U. S. Court of Ap-  
peals for the Ninth Circuit.

[Endorsed]: Filed February 20, 1951.

No. 12845.

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

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THE STUART COMPANY,

*Petitioner,*

*vs.*

COMMISSIONER OF INTERNAL REVENUE,

*Respondent.*

---

OPENING BRIEF IN BEHALF OF THE STUART  
COMPANY, PETITIONER.

---

A. CALDER MACKAY,  
ARTHUR MCGREGOR,  
HOWARD W. REYNOLDS,  
ADAM Y. BENNION,  
F. EDWARD LITTLE,

728 Pacific Mutual Building,  
Los Angeles 14, California,

*Counsel for Petitioner.*



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No. 12845.  
IN THE  
**United States Court of Appeals**  
FOR THE NINTH CIRCUIT

---

THE STUART COMPANY,

*Petitioner,*

*vs.*

COMMISSIONER OF INTERNAL REVENUE,

*Respondent.*

---

**OPENING BRIEF IN BEHALF OF THE STUART  
COMPANY, PETITIONER.**

---

**Jurisdiction.**

This Petition was filed to review a decision of The Tax Court of the United States involving income tax, declared value excess profits tax and excess profits tax liability of Petitioner for the years ended March 31, 1943, March 31, 1944, and March 31, 1945.

Notice of deficiency was mailed to Petitioner on August 16, 1946 [R. 12-23], and the Petition for Redetermination was filed with The Tax Court on November 12, 1946 [R. 6-23]. The Petition was filed pursuant to Sections 272(a)(1) and 729(a) of the Internal Revenue Code.

The Memorandum Findings of Fact and Opinion of The Tax Court, which are not reported, were entered on June 28, 1950 [R. 39-59], and the decision was entered on September 22, 1950 [R. 60]. Petition for Review was filed by The Stuart Company and notice thereof served upon counsel for Respondent on December 21, 1950 [R. 642-650].

The income tax, declared value excess profits tax and excess profits tax returns of Petitioner for each of the years ended March 31, 1943, March 31, 1944, and March 31, 1945, were all filed with the Collector of Internal Revenue for the Sixth District of California at Los Angeles, California [Petitioner's Exs. 2, 3 and 4]. The Petition for Review was filed pursuant to Section 1142 and jurisdiction is invoked under Section 1141 of the Internal Revenue Code.

### Statutes Involved.

#### Internal Revenue Code:

##### "SEC. 23. DEDUCTIONS FROM GROSS INCOME.

In computing net income there shall be allowed as deductions:

##### (a) Expenses.—

##### (1) Trade or business expenses.—

(A) In general.—All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business \* \* \*."

### Statement of the Case.

The Tax Court was called upon to determine whether Petitioner, The Stuart Company, under Section 23(a)(1) (A) of the Internal Revenue Code above quoted, was entitled to deduct sums aggregating \$197,700.00 paid by Petitioner to The Vita-Food Corporation under an "Agreement of Settlement of Litigation and Cancellation of Contract" dated November 28, 1942.

The Tax Court held that Petitioner was entitled to deduct the sum of \$75,000.00 but was not entitled and never will be entitled to deduct the balance of \$122,700.00, upon the theory (which Petitioner believes to be erroneous) that the latter sum was paid for the purchase of a trade-mark [R. 59]. Both the taxpayer and the Commissioner of Internal Revenue have petitioned this Court to review said decision. The taxpayer, The Stuart Company, will be referred to herein as the Petitioner.

Petitioner was incorporated under the laws of the State of California on March 27, 1941 [R. 183]. Prior to its incorporation, there had been preliminary negotiations between Petitioner's principal officer and shareholder, Arthur Hanisch, and Maxwell H. Lewis, the principal officer of The Vita-Food Corporation [R. 118]. It was the understanding that The Vita-Food Corporation was to manufacture and sell to Petitioner vitamin products, which were to be sold and distributed nationally by Petitioner [R. 109].

On May 5, 1941, Petitioner, The Vita-Food Corporation and Arthur Hanisch, as an individual, entered into a formal contract setting forth prices, quotas, default provisions and other rights, restrictions and liabilities [Petitioner's Ex. 8]. The contract was for a period of 10 years, during which time Petitioner was obliged to purchase all vitamin products from The Vita-Food Corporation at certain specified prices. The prices at which the products were to retail were likewise specified. Petitioner was granted the exclusive right to sell said vitamin products under trade-marks, including "The Stuart Formula" and "Vitaplex," which trade-marks the contract specified were to belong to The Vita-Food Corporation; but the contract further provided that if Petitioner did not sell certain specified quotas of the product during any 60-day period after November 1, 1941, such exclusive right could be terminated at the option of The Vita-Food Corporation [R. 44-47].

The price Petitioner was required under the contract to pay for products to be sold under the mark "The Stuart Formula" was 85 cents per pint bottle if its monthly purchases averaged less than 500 pint bottles per day; 84 cents if the purchases averaged between 500 and 750 bottles per day; 83 cents if between 750 and 1,000 bottles per day; 82 cents if between 1,000 and 1,500 bottles per day; and 81 cents if in excess of 1,500 bottles per day [Petitioner's Ex. 8, pp. 4-5]. The product was required to be retailed at \$1.95 per pint bottle [Ex. 8, p. 3]. Petitioner's exclusive right to sell the product could be terminated by The Vita-Food Corporation if its purchases for any 60-day period did not average 1,500 pint bottles per day from November 1, 1941, to May 1,

1942, and if they did not average 2,000 pint bottles per day after May 1, 1942 [Ex. 8, p. 5].

Petitioner's operations under the contract resulted in losses aggregating \$15,451.56 during the first 18 months [R. 55; Ex. 7]. During the first 11 months after the contract was executed (or to the end of the fiscal year ended March 31, 1942) it purchased vitamin products at a cost of \$154,271.48, which, at the contract price of 85 cents per bottle, represented the purchase of approximately 180,000 pint bottles [Ex. 7]. This was at an average rate of but slightly in excess of 500 bottles per day. It sold said 180,000 bottles for \$223,124.50 [Ex. 7], or for approximately \$1.25 per bottle. This resulted in a gross profit for the period of approximately \$69,000.00, or roughly 40 cents per bottle.

Similarly, during the seven months from April 1, 1942, to October 31, 1942, Petitioner purchased vitamin products from The Vita-Food Corporation in the sum of \$143,495.51 [Ex. 7], which at 85 cents per bottle represented the cost of approximately 170,000 bottles. This would represent an average daily rate of purchases of roughly 800 bottles per day; whereas Petitioner's minimum quota was 2,000 bottles per day, in default of which its exclusive license could be terminated by The Vita-Food Corporation. Petitioner sold the 170,000 bottles in this seven-month period for \$214,489.37 [Ex. 7], or for roughly \$1.25 per bottle.

The foregoing figures are all approximate, but they illustrate two vital points: (1) the minimum quota appeared so unrealistically high that Petitioner would always remain at the mercy of The Vita-Food Corporation



and the prospect that the latter would terminate Petitioner's exclusive rights; and (2) the set price to the Petitioner was such that its gross profit apparently could never exceed about 40 cents per bottle, and this margin of gross profit over an 18-months' period had proved insufficient to cover its direct operating expenses and overhead. Petitioner was convinced that it could not operate at a profit as long as the contract was in effect [R. 326-327].

Then, too, Petitioner had experienced difficulty with some of the product, which had become gaseous from exposure to the sun and exploded or ran over the sides of the bottles [R. 47] and had also experienced short counts on the tablet preparations [R. 328]. Relationships between the parties became strained [R. 327-329]. Then in September and October, 1942, Petitioner learned for the first time that there was nothing new, novel or secret in the product being purchased from The Vita-Food Corporation; that there was no unique formula involved in any sense of the term; that a molasses base for such a product was improper in the pharmaceutical field, due to its fermentation properties; and that a better product containing the same vitamin content could be purchased from large and reputable pharmaceutical houses for at least one-third less than Petitioner was bound by contract to pay The Vita-Food Corporation, or from 54 to 60 or 65 cents per bottle [R. 49, 135, 143, 174-176, 257, 293-294, 328]. Thus, Petitioner's officers believed that if it were released from its obligation to buy its products exclusively from The Vita-Food Corporation at prices established by contract it could immediately increase its gross profit from 40 cents per bottle to approximately 65

cents per bottle—an increase of roughly 60 per cent, which would mean the difference between profitable operations and a losing venture.

While the original contract of May 5, 1941, recited that any and all trade-marks should be the property of The Vita-Food Corporation, the latter's name did not appear on labels, literature or correspondence used by Petitioner in its business, and was unknown to the public [R. 130]. The whereabouts of its manufacturing plant was never disclosed even to Petitioner [R. 169]. The trade-mark "The Stuart Formula" was registered with the United States Patent Office by The Vita-Food Corporation, but Petitioner believed and contended that such registration was fraudulent [R. 323 and 424-425], for the reason that said trade-mark was used exclusively by Petitioner and was not used by The Vita-Food Corporation.

On October 8, 1942, The Vita-Food Corporation served written notice upon Petitioner terminating its exclusive right to sell under said contract, in view of Petitioner's failure to meet its quotas, the termination to be effective 60 days thereafter. The notice stated that in all other respects the contract was to remain in full force and effect [R. 49]. This necessarily included the continuance of Petitioner's obligation to "handle no other products than those produced by The Vita-Food Corporation." Petitioner acknowledged receipt of such notice on October 12, 1942, stating that it would attempt to cure its

failure within the 60-day period, but would probably be unable to do so, and would regard the contract as terminated in its entirety [R. 49-50]; in short Petitioner then declined to concede the existence of any such intermediate procedure. It may be observed here that the contract contained two provisions granting The Vita-Food Corporation options to terminate: (1) paragraph 6 authorized The Vita-Food Corporation to terminate Petitioner's exclusive right if it failed to meet its quotas; and paragraph 19 authorized The Vita-Food Corporation to terminate the entire contract if Petitioner failed to meet its quotas [Ex. 8]. Thus, The Vita-Food Corporation sought to terminate only Petitioner's exclusive rights, while holding it to the other provisions of the contract, and Petitioner sought to be relieved of the entire contract.

Litigation was inevitable. Petitioner's counsel, Mr. Dunlap, was busy preparing a complaint to rescind the contract, but before it was filed, The Vita-Food Corporation, on November 25, 1942, filed suit against Petitioner seeking to enjoin it from using the trade-mark "The Stuart Formula" upon any product not manufactured by The Vita-Food Corporation and for general relief [R. 51]. Petitioner continued preparation of a cross-complaint seeking, among other things, a rescission of the contract upon several grounds.

In culmination of these difficulties an agreement captioned "Agreement of Settlement of Litigation and Cancellation of Contract" was executed on November 28,

1942, by Petitioner, The Vita-Food Corporation and Arthur Hanisch [Petitioner's Ex. 12], under which the litigation was dismissed with prejudice, the contract of May 5, 1941, was cancelled and terminated "as fully and to the same effect as though the same had never been executed," and each party released the other from any and all claims. Under the terms of said agreement, Petitioner agreed to pay The Vita-Food Corporation the sum of \$197,700.00, as follows: \$35,000.00 upon execution of the agreement, \$40,000.00 at the rate of \$4,000.00 per month, and \$122,700.00 "on a royalty basis and as additional consideration for the execution of this agreement," at the rate of  $7\frac{1}{2}$  cents per unit of vitamin concentrates sold by Petitioner on and after October 1, 1943, under any and all trade names which might be employed [Petitioner's Ex. 12, p. 2].

As an incident to said agreement, The Vita-Food Corporation quitclaimed any interest which it might have in the trade-mark "The Stuart Formula" and agreed to make appropriate record assignment of the same if so requested [Petitioner's Ex. 12, p. 1]. Petitioner also quitclaimed any interest it might have in certain other names [Petitioner's Ex. 12, p. 4]. Petitioner made the cash and royalty basis payments, as called for by the agreement, and deducted the same upon its various returns as amounts paid to secure the cancellation of an onerous contract [Petitioner's Exs. 2, 3 and 4]. The Tax Court erroneously and arbitrarily allocated the sum

of \$122,700.00 to purchase of the trade-mark "The Stuart Formula," which amount it declared must be capitalized, and treated the balance of Petitioner's total payment, the sum of \$75,000.00, as being paid for cancellation of an onerous contract, which, of course, was allowed as a deduction from Petitioner's income [R. 59].

Immediately after the settlement agreement was executed Petitioner commenced the purchase of its vitamin products elsewhere. During the fiscal years ended March 31, 1944, and March 31, 1945, it sold 1,352,593 bottles at approximately \$1.27 per bottle—or roughly the same price at which the former product had been sold; but its cost of such products averaged only 61 cents per bottle, as opposed to a cost in excess of 81 cents that would have been required under the cancelled contract [Exs. 3, 4 and 5]. As a result, Petitioner's gross profits during said two taxable years were roughly \$300,000.00 greater than they would have been under the old contract—solely as a result of the cost differential. But under The Tax Court's decision the 7½ cents per bottle royalty it was required to pay The Vita-Food Corporation was not permitted as a deduction. Petitioner was subjected to income tax and excess profits tax during the year ended March 31, 1945, at the almost confiscatory maximum war-time rate of 80 per cent of its net income—the net income being computed without any deduction for said royalties, but including the full benefit derived by it from savings in cost through cancellation of the contract [R. 23].



### Specification of Errors.

Petitioner relies upon the following Specification of Errors, being the same as its Statement of Points on pages 658-661 of the printed record:

1. The Tax Court erred in holding and deciding that \$122,700.00 was paid by Petitioner under the cancellation agreement of November 28, 1942, for the purchase of a trade-mark "The Stuart Formula."

2. The Tax Court erred in allocating any more than a nominal portion of the total payment of \$197,700.00 made by the Petitioner under the cancellation agreement of November 28, 1942, to the acquisition of any capital asset.

3. The Tax Court erred in failing and refusing to hold and decide that all of said \$197,700.00 paid by Petitioner under the cancellation agreement of November 28, 1942, or at least substantially all thereof, was paid by Petitioner to secure cancellation of an onerous contract, and in further failing to hold the same is deductible as an ordinary and necessary business expense under Section 23(a) of the Internal Revenue Code.

4. The Tax Court erred in determining any deficiency in income tax, declared value excess profits, or excess profits tax for either the fiscal year ended March 31, 1944, or the fiscal year ended March 31, 1945.

5. The Tax Court erred in that its Findings of Fact and Opinion are not supported by, but are contrary to,

the evidence, to wit, The Tax Court found and held that Petitioner paid \$122,700.00 for the trade-mark "The Stuart Formula," whereas the evidence established that the Petitioner, as the exclusive user of said trade-mark, had experienced increasing net operating losses over a nineteen-month period aggregating \$15,451.56, that said trade-mark was of no value, that Petitioner regarded the trade-mark as in ill repute, that Petitioner was considering the adoption of a new trade-mark once it was freed of its contractual obligation to buy products only from The Vita-Food Corporation, that acquisition by Petitioner of whatever interest The Vita-Food Corporation had in said trade-mark was an inconsequential feature of the settlement agreement, and that Petitioner did not pay, and would not have paid, any but a nominal consideration for said trade-mark.

6. The Tax Court erred in that its Findings of Fact are inconsistent one with another, and its Opinion is contrary to its Findings of Fact, to wit, The Tax Court found that the stock of the Petitioner was worthless on the date of the settlement agreement, November 28, 1942, but notwithstanding this finding (which was amply supported by evidence) The Tax Court found and held that Petitioner, which had been the exclusive licensee with the sole right to use the trade-mark "The Stuart Formula," paid the sum of \$122,700.00 for whatever interest The Vita-Food Corporation had in said trade-mark, thereby apparently (and erroneously) inferring that the trade-mark had sufficient value to justify such a price, which inference is repugnant to the finding that Petitioner's stock had no value on that date.

7. The Tax Court erred in disregarding and ignoring uncontradicted testimony of expert and other witnesses which established that the trade-mark "The Stuart Formula" had no value on the date of the settlement agreement, November 28, 1942, or at most a nominal value.

8. The Tax Court's Findings of Fact, Opinion and Decision are contrary to the recognized and settled rule of law, that a lump sum paid under a contract is to be allocated among the respective considerations received for such sum in accordance with the relative values of said respective considerations; and since the uncontradicted testimony in this record established that the trade-mark "The Stuart Formula" had no value or only a nominal value, The Tax Court erred as a matter of law in allocating any of the payments (or more than a nominal part) as the purchase price thereof.

9. The Tax Court's Findings of Fact, Opinion and Decision, in so far as they hold that Petitioner obligated itself to purchase the trade-mark "The Stuart Formula" in consideration of the sum of \$122,700.00, are arbitrary and are based upon an erroneous interpretation of the settlement agreement of November 28, 1942, in that said agreement specifies that if Petitioner should abandon said trade-mark, as was actually under consideration by Petitioner, the trade-mark would become the property of The Vita-Food Corporation, but notwithstanding this the Petitioner would still have been liable under said contract to pay to The Vita-Food Corporation the said sum of \$122,700.00.

10. The Tax Court erred in that its Opinion and Decision are contrary to law.

### Summary of Argument.

The question presented to this Court is whether The Tax Court erred in allocating the sum of \$122,700.00 to the purchase of the trade-mark "The Stuart Formula."

I. Petitioner was a party to the 10-year contract of May 5, 1941, which by November, 1942, had become a very onerous contract from Petitioner's standpoint, largely because (1) it was never able to meet the quotas set forth therein and was therefore at the mercy of the other contracting party, (2) the margin of gross profit which Petitioner was able to make under the terms of the contract was so low that its officers believed it could never operate at a profit thereunder, (3) its officers had come to the conclusion that the product it was bound to purchase under the contract was an inferior product, and (4) it had learned, contrary to assurances given to it at the time the contract was executed, that there was no unique formula involved in the product and that a better product could be obtained elsewhere at such a substantial savings in cost that its ratio of gross profits would increase at least 60 per cent. Petitioner's officers considered the trade-mark "The Stuart Formula" to be in ill repute and of no value whatever and had given consideration to the adoption of a new trade-mark and had even calculated the cost (at not to exceed \$20,000.00) of making such a change. Such a change in name would have afforded Petitioner no relief from the onerous contract, since Vita-Food was contending that any trade-mark

adopted by Petitioner should become the property of Vita-Food. Notwithstanding gross sales of \$437,000.00 over the 17-months' period ended October 1, 1942, Petitioner had sustained a net operating loss in excess of \$15,000.00.

To secure relief from this onerous contract Petitioner was willing to, and did, pay to the other contracting party sums aggregating \$197,700.00.

Under the "Agreement of Settlement of Litigation and Cancellation of Contract" Petitioner was relieved of its obligation to confine its merchandise purchases to The Vita-Food Corporation and therefore became free to obtain better products at much lower prices than it had been paying to The Vita-Food Corporation under its contract of May 5, 1941.

Under the settlement and cancellation agreement The Vita-Food Corporation "quitclaims without warranty \* \* \* to the second party [Petitioner] the trade-mark 'The Stuart Formula.'" Vita-Food also agreed "to execute appropriate assignments, *if requested*," of the trade-mark registrations. In addition thereto The Vita-Food Corporation agreed to transfer to Petitioner 300 shares of its stock which had, under the agreement of May 5, 1941, been transferred to Mr. Lewis as representative of The Vita-Food Corporation.

Petitioner agreed to pay to The Vita-Food Corporation the total sum of \$197,700.00, as follows:

- (1) \$35,000.00 upon execution of the contract;



(2) \$4,000.00 per month over a 10-month period;

(3) \$122,700.00 at the rate of 7½ cents per unit of vitamin concentrates as sold and marketed by Petitioner under any trade name used, beginning October 1, 1943, and continuing until the full sum of \$122,700.00 had been paid.

The payment of this sum in the manner specified was not conditioned upon the assignment of the trade-mark, nor was it conditioned upon the use by Petitioner of said trade-mark. The Tax Court, without any evidence to support its findings, concluded that the sum of \$122,700.00 was paid for the trade-mark "The Stuart Formula" and therefore treated this sum as a capital expenditure.

The Tax Court recognized the established law that the allocation of the contract consideration should be based upon the value of the properties and the benefits derived by Petitioner, since it accepted the testimony of Petitioner's witnesses with respect to the worthlessness of the 300 shares of Petitioner's stock and as a result thereof allocated no part of the contract consideration to this stock. However, The Tax Court erroneously ignored the uncontradicted testimony of Petitioner's witnesses with respect to the value of the trade-mark "The Stuart Formula."

II. The trade-mark in the hands of The Vita-Food Corporation was worthless as a matter of law and they had no legal right or effective ability to execute an assignment.

## ARGUMENT.

### I.

**The Tax Court Erred in Allocating \$122,700.00 of the Total Consideration Paid by Petitioner to The Vita-Food Corporation to the Trade-Mark "The Stuart Formula."**

**A. The Economic Benefits Petitioner Expected to Be Derived From the Cancellation of the Onerous Contract Preclude the Allocation of Any Substantial Sum to the Trade-mark.**

The Tax Court concluded that Petitioner, under the contract of November 28, 1942, obligated itself to pay Vita-Food the sum of \$122,700.00 for the purchase of the trade-mark "The Stuart Formula" at the rate of 7½ cents per unit of vitamin concentrates sold by the Petitioner after October 1, 1943 [R. 56].

Admittedly there is no direct evidence to support such an allocation of the total sum to be paid under the contract. Let us therefore inquire whether such a conclusion is supportable by any logical inference to be drawn from the evidence.

We desire to emphasize the fact that such payments "on a royalty basis" were to commence on November 15, 1943, with respect to sales made during the calendar month of October 1943. In other words, *these payments were not to commence until one year after the agreement of November 28, 1942.*

Yet, on the very next page of the agreement it was provided that if the trade-mark should be abandoned by Petitioner the ownership thereof would vest in Vita-Food [R. 54]. This provision was inserted in the agreement

for a very good reason, for it will be observed that Mr. Hanisch prior to the execution of the agreement had actually contemplated abandoning the trade-mark "The Stuart Formula" and had gone so far as estimating what it would have cost to adopt a new trade-mark and label and acquaint the trade with such change [R. 179-180].

It is reasonable to assume that any abandonment or change of the name, if that course were decided upon, would have occurred soon after the agreement of November 28, 1942, divorcing the parties—or long before the royalty payments were to commence. But the abandonment of the name would not have altered Petitioner's obligation to commence royalty payments the following year nor would it have reduced the sum of \$122,700.00 which Petitioner was obligated to pay in this manner.

If, as The Tax Court inferred, the trade-mark was the all-important factor and if the parties were primarily interested in selling and purchasing the mark for \$122,700.00, is it not most extraordinary that payments for the mark were not to begin until one year after the so-called purchase and sale? And is it not most unusual that Petitioner would purchase a mark for \$122,700.00 which it believed could be abandoned in favor of another mark, equally suitable, at a cost of less than \$20,000.00? And is it not strange that Petitioner obligated itself to continue paying for the mark, while at the same time providing that the mark would become the property of Vita-Food in the event of such abandonment?

We respectfully submit that these questions reveal that The Tax Court's inference completely lost sight of the factual situation actually existing when the settlement agreement was made.

The true situation, and the only logical conclusion to be drawn from it, must take into account the following facts:

By the original contract of May 5, 1941, Petitioner had obligated itself for a period of 10 years to buy all its vitamin products from Vita-Food at a basic price of 85 cents per pint bottle [Petitioner's Ex. 8]. The contract specified that for said 10-year period the retail selling price to the ultimate consumer should not exceed \$1.95 per pint bottle. The result was that Petitioner, in order to leave profits for retailers, sold the product for approximately \$1.25 per bottle. This left Petitioner with a gross profit of approximately 40 cents per bottle—a sum which was insufficient during 18 months of operation to cover its direct operating expenses and overhead. As a result it suffered losses as disclosed in the record.

Meanwhile, Petitioner learned for the first time that an equivalent or superior product could be purchased for as low as 54 cents per bottle [R. 176].

Imagine the frustration of a distributor, bound by a contract still having  $8\frac{1}{2}$  years to run under which its cost was set at 85 cents and its gross profit was limited to 40 cents per bottle, upon learning that it could acquire from other sources an identical product, or one which it believed to be superior, for 25 or 30 cents per bottle less than it was obligated to pay under the contract. By merely being relieved of its contractual obligation to purchase all products from Vita-Food, the Petitioner would be free immediately to increase its gross profit *on every bottle it sold* by 25 cents, representing an increase of 60 per cent over the gross profit to which it was limited under the contract.

Certainly it was good business, and Petitioner could well afford, to pay over to Vita-Food  $7\frac{1}{2}$  cents out of the increased 25 cents gross profit which it would immediately realize upon the sale of every bottle if it were freed of its contract.

When the  $7\frac{1}{2}$  cents royalty payments commenced in November 1943, there would still have remained  $7\frac{1}{2}$  years of the 10-year period of the original contract. In order to pay the sum of \$122,700.00 at the rate of  $7\frac{1}{2}$  cents per bottle, Petitioner had to sell 1,636,000 bottles of vitamin products. The monthly sales from May 1941 to October 1942, when the royalty agreement was reached, had averaged about 19,500 bottles, or at an annual rate of approximately 234,000 bottles. Based upon such average sales to that date, it would require approximately 7 years of sales to pay \$122,700.00 at the rate of  $7\frac{1}{2}$  cents per bottle. Based upon the then volume of business this would take the payments down to the approximate time the original 10-year contract otherwise would have terminated.

The inescapable conclusion is that the royalty payments represented consideration paid by Petitioner to be released, *for the final  $7\frac{1}{2}$  years of its contract*, from its obligation to buy goods only from Vita-Food at 85 cents per bottle. In other words, in anticipation of an immediate increase in gross profit of 25 cents per bottle, it was willing to pay over to Vita-Food, as consideration for the freedom which would make such increase possible,  $7\frac{1}{2}$  cents of such increase, retaining the balance.

This had nothing whatever to do with the trade-mark "The Stuart Formula"—it was a benefit realizable *solely*



by *saving in cost* which would inure to Petitioner if its onerous contract could be cancelled.

It is often declared that taxation is a practical matter. As a practical matter Petitioner went ahead immediately and during the taxable years before this Honorable Court it purchased vitamin products at approximately 60 cents per bottle and sold them at approximately \$1.25 per bottle, exactly as it knew it could do. It thus realized the expected increase in gross profit of 25 cents per bottle over what its profit would have been under the Vita-Food contract. It has reported that additional 25 cents per bottle profit in computing its income tax and excess profits tax. It has sought to deduct against that 25 cents additional profit the expense it was put to in obtaining it—namely, the  $7\frac{1}{2}$  cents it was required to pay over to Vita-Food. As a practical matter, one would suppose that the tax should not be levied upon the gross increase of 25 cents, but only upon the net amount of gross profit—after subtracting the  $7\frac{1}{2}$  cents—which resulted from cancellation of the agreement.

But The Tax Court's decision is not practical. It is harsh. It taxes the gross increase of 25 cents and ignores forever the  $7\frac{1}{2}$  cents expense incurred to produce the 25 cents. Such a harsh result might be condoned if it were dictated by some technical statutory mandate. But, as we have seen, it resulted solely from an inference indulged in by the Court—the inference that \$122,700.00 was paid for a trade-mark—which we believe is shown by the above analysis to be utterly at odds with reality. An erroneous inference should never be allowed to result in a harsh decision in the practical field of taxation.

We ask the Court to appraise the situation faced by Mr. Hanisch and Mr. Dunlap as it existed in October 1942. Both firmly believed that the trade-mark "The Stuart Formula" had little or no value. They had even calculated the cost of adopting a new name, at less than \$20,000.00. The name had been used only one and a half years. Its use had resulted in losses to Petitioner. In some quarters the mark was in ill repute because the product had exploded.

On the other hand, they had just learned that they could have purchased a product at a savings in cost of at least 25 cents per bottle, so that at the then volume of business Petitioner would have made a profit of \$99,000.00 instead of losses, or annual profits of about \$65,000.00 [R. 176, 374-375]. Regardless of the name, with the contract still having  $8\frac{1}{2}$  years to run, they knew that solely as a result of the contract restrictions on their cost, they would lose \$550,000.00 in profits over  $8\frac{1}{2}$  years which they could earn if they were only free to buy products from others (this based only on the volume of business then existing).

To be released from the obligations of that contract and also to be able to continue using the trade-mark Petitioner agreed to pay Vita-Food the sum of \$197,700.00. We ask the Court: what was the great bulk of that sum paid for? To secure freedom so they could earn more than one-half of one million dollars over the remaining term of the contract? Or for the incidental trade-mark which they believed could have been replaced by an expenditure not exceeding \$20,000.00? We respectfully believe the answer is so obvious that this Court can but reverse The Tax Court's arbitrary and erroneous determination.

Just as the 7½ cent royalty payments were consideration for being released from the cost burdens of the contract from and after October 1, 1943, so also we submit that the initial payment of \$35,000.00 and particularly the monthly payments of \$4,000.00—for the 10 months from the execution of the settlement agreement until the royalty payments were to commence—were consideration for the cost advantage Petitioner would realize during said 10-month period as a result of freedom from its contract.

**B. The “Agreement of Settlement of Litigation and Cancellation of Contract” Clearly Indicates That the Trade-mark Was of Little Significance.**

An examination of the “Agreement of Settlement of Litigation and Cancellation of Contract” [Petitioner’s Ex. 12] clearly indicates that the trade name “The Stuart Formula” was considered by all parties thereto as having little significance. The caption of the contract negatives the idea that the trade name had any real importance. There is not one word in the text of the agreement which supports the contention that Petitioner was paying such a large sum—\$122,700.00—for the trade name. At no place in the agreement do the words “buy,” “sell” or “exchange” appear. Respondent’s own witness—the attorney who assisted in drawing the agreement—testified that he intended the agreement to mean just what it said [R. 572]. The agreement clearly indicates that the signatory parties intended to “settle the litigation and cancel the contract.”

Petitioner's reasons for cancelling the contract were, among others, that the quality of the product was inferior [R. 135] and that the price thereof to Petitioner was more than twice as high as good products which could be obtained elsewhere [R. 143], but primarily because under paragraph "7" of the agreement of May 5, 1941, Petitioner was obligated to continue to purchase all of its merchandise from The Vita-Food Corporation. Because of the defective products and the high prices which Petitioner was required to pay to The Vita-Food Corporation, Petitioner was unable to make a profit. In fact, The Tax Court found that "From the date of its organization on March 27, 1941, until October 31, 1942, the petitioner suffered net operating losses, as shown by its books, which totalled \$15,451.56." [R. 55.] The Tax Court also found as a fact that the shares of stock of Petitioner were worthless on November 28, 1942 [R. 56].

How, under these circumstances, can it realistically be contended that \$122,700.00 of the total payment should be allocated to the trade name "The Stuart Formula"? It is most unrealistic to assume that a trade-mark in use only about 18 months, with the resulting losses hereinbefore referred to, would have any such value. In *Ohio Oil Co. v. Commissioner*, B. T. A. Memo. Dec., Docket No. 100090, the Board summarily decided that a corporation which had been in business only 3½ years could have no good will, particularly since it had suffered losses during that time. Furthermore, it is extremely unrealistic to allocate such a large sum to the trade-mark since the

parties themselves, as indicated by the contract, attached so little importance to it. If the parties had really regarded the trade-mark "The Stuart Formula" as important they certainly would have so indicated in the contract; they would not have left it dangling, as they did, with the option on the part of the Petitioner to subsequently take it or leave it. It will be recalled that under the terms of the contract The Vita-Food Corporation agreed to "execute appropriate assignments of the trade-mark, *if requested*." This clearly indicates that in the minds of the contracting parties the trade name "The Stuart Formula" had little significance. Whether Petitioner did or did not subsequently request the assignment of the trade-mark or whether Petitioner used or did not use the trade-mark had no effect upon Petitioner's obligation to pay the total sum provided for in the contract, which, as heretofore stated, was paid to settle litigation and for cancellation of the contract. The record indicates that it was approximately five months after the contract was signed that Petitioner requested the assignment of the trade-mark [Respondent's Ex. M].

**C. The Allocation of an Aggregate Consideration to Capital and Expense Items Is to Be Based Upon Evidence of Value.**

It is well established that where the parties to an agreement express an aggregate consideration to be applied to capital and expense items, but make no breakdown of the consideration as among themselves, the Court must make its allocation based upon evidence of value. In *Cleveland Allerton Hotel, Inc. v. Commissioner* (C. C. A., 6), 166 F. 2d 805, the Petitioner had paid the over-all consideration of \$441,250.00 for the purpose of securing cancella-



tion of an onerous lease, but incidentally also acquired fee title to a piece of real estate. The Court reasoned and held as follows (pp. 806 and 807):

“The petitioner argues that its primary purpose was to buy its way out of that portion of its leasehold obligation which was excessive and that its purchase of the fee was merely incidental to that purpose.

\* \* \* Its claim that the value of the land was no more than \$200,000 is supported by credible and uncontradicted evidence, which the Tax Court finds establishes that if there were no lease to be considered the value of the land would be \$200,000. The petitioner concedes that, neither in the negotiations to purchase nor in the contract which eventuated, was there any designation of consideration separately assignable to the purchase of the leasehold or to the reversionary interest in the land, but urges that such allocation has no bearing on the problem for if the transaction is to be viewed realistically, what it paid over and above the fair value of the real estate must necessarily have been paid to escape an excessive rental obligation. \* \* \*

\* \* \* \* \*

If numerous admonitions that taxation is a practical matter, that taxing authority may look through form to substance, is not mere rhetoric where the taxpayer's interest is involved, and a working formula only when it is of advantage to the Treasury, it would seem to be clear that the petitioner paid all over \$200,000 to escape from a burdensome lease, and should be able to write that off as an expense of doing business.”

**D. The Uncontradicted Evidence Clearly Establishes the Fact That the Trade Name "The Stuart Formula" Had No Value.**

Petitioner, in conformity with the foregoing principle of law, offered evidence which is uncontradicted as to the value of the trade-mark "The Stuart Formula." Each one of the witnesses testified that the trade-mark had no value on November 28, 1942. Mr. Arthur Hanisch, President of Petitioner, testified as follows:

"Q. (By Mr. Mackay): Well, what in your opinion was the fair market value of the trade name at that time?

A. The trade-mark 'the Stuart formula'?

Q. Yes.

A. It had no tangible value to us whatever, insofar as—well, it had no realistic value. Let me explain it this way: As a matter of fact, we had considered using the name 'The Stuart Company' and calling it 'Stuart Vitamins' because of the bad repute of the product we had. However, I estimated what it would cost us to change the name of the product to a name like 'Stuart Vitamins,' and it would have cost us—and I have a figure, may I refer to that figure—I estimated that at the time we were considering making that change to a new name, and all of our men agreed that this would have been the cost, we would have had to make a notification to all the doctors [132] who were on our mailing list at that particular time, and also to our drug outlets. The number of doctors we had at that time was 17,428. The number of drug outlets we had was 6,746. Our estimate of what that cost would have been was predicated on this: Our men had to call on the doctors anyway. They would have informed

them verbally, so there was no added expense on that particular point. However, we felt that the mailing of advice to each one of our doctors—to each one of our drug stores would have been ample notification to make them aware that there had been a change. Those mailings through our experience have cost us six cents apiece, so that the total cost of that mailing would have been \$4,713.00.

We also, at that time, had 11,700 bottles of merchandise on hand which would have had to be relabeled. There Lewis or the Vita-Food Corporation at that time was charging us 10 cents to do relabeling. For that reason we used the figure of a cost of 10 cents which would have involved changing this label to a new name, which comes out \$1,170.00.

In addition to that there would have been the work and experience [*sic*]*—*art work of getting up our new labels with a new name, which we estimated at \$1,000.00.

That is a total figure of \$6,883.93, which I think is a very fair estimate.

But assume that you double or triple it. I would say that is an absolute outside figure of what a change to another name [133] would have involved.”  
[R. 179-180.]

Mr. Donald Royce, President of the oldest investment house on the Pacific Coast, a witness with no interest in the Petitioner or outcome of the law suit, offered the following testimony:

“Q. (By Mr. Mackay): Would you assign any value at all to those intangibles, particularly a trade name, if the company showed no earnings?

A. We would not.

Q. Will you please examine Exhibit 19. That shows a loss to The Stuart Company for its first full year of operation of \$6,462.14, and a loss for the period from April 1, [387] 1942, to October 31, 1942, of \$8,989.42.

A. Under those circumstances, I am very confident there would have been no value, from the standpoint of a public distribution or sale to a private group, of that trade-mark.

Q. The record shows that The Stuart Company had carried on operations and sold products under 'the Stuart formula' trade name from the beginning at April 1, 1941, to November 28, 1942, which resulted in these losses that I have referred to on Exhibit 19. In your opinion would the trade-mark have any fair market value at that time?

A. I am very confident it would not have." [R. 407-408.]

Mr. George Miller, with forty years of experience in the drug business [R. 293] and President of Strong Cobb and Company, the largest private formula manufacturer in the world [R. 292], testified that in the ethical field where the approach is made to the doctor and the product is not advertised to the ultimate consumer, trade-marks or trade names are of very little importance [R. 297-298], and the same can be readily changed with little expense or disturbance of market continuity [R. 299]. The Tax Court found that "The Stuart Formula" was never advertised or sold directly to the public, but only through drug stores [R. 43].

It is admitted that during the period in which Petitioner was the exclusive user of the trade-mark it experienced nothing but increasing operating losses and a growing deficit. *Mertens*, in his *Law of Federal Income*

*Taxation*, Volume 10A, Section 59.37, at page 76, says that the usual and accepted method of evaluating intangibles such as a trade name is by “(1) determining the average annual net earnings of the business, (2) determining the value of the tangible assets, (3) deducting from the total net earnings the earnings attributable to the tangible property, and (4) capitalizing the balance.”

The long-established Bureau ruling is set forth in A. R. M. 34 (2 C. B. 31, 32):

“The third method and possibly the one which will most frequently have to be applied as a check in the absence of data necessary for the application of the preceding ones, is to allow out of average earnings over a period of years prior to March 1, 1913, preferably not less than five years, a return of 10 per cent upon the average tangible assets for the period. The surplus earnings will then be the average amount available for return upon the value of the intangible assets, and it is the opinion of the Committee that this return should be capitalized upon the basis of not more than five years’ purchase—that is to say, five times the amount available as return from intangibles should be the value of the intangibles.”

In considering the value of the trade name “The Stuart Formula” we should not lose sight of the fact that Petitioner at all times had the right to use its corporate name “The Stuart Company.” It could have sold these better products under its own name or under “Stuart Products.” Furthermore, we should not lose sight of the uncontradicted testimony of Mr. Royce and Mr. Miller. Each one of these witnesses testified that there was a great deal of difference between a “trade name” on products sold to the consuming public and a “trade name” on goods sold to doctors and licensed drug stores; that in the ethical



trade it is the product and the integrity of the distributor rather than the trade name that is important in accomplishing sales. The Tax Court specifically stated in its opinion that during the period from May 5, 1941, to October 31, 1942, "17,428 individual doctors had been personally contacted and induced to recommend 'The Stuart Formula' to patients who were in need of additional vitamins and vitamin concentrates under the name 'The Stuart Formula' were being retailed by 6,746 different drug stores" [R. 58]. In short, contrary to the uncontradicted evidence, The Tax Court attached the same importance to a trade-mark used in the ethical field as would be attached to a trade name publicly accepted. In this The Tax Court committed an error. Doctors, unlike the consuming public, do not recommend a mere name; it is the product and the integrity of the distributor that is important in the ethical field.

The method of selling the product by Petitioner clearly supports the unimportance of the trade name. The uncontradicted evidence of Mr. Hanisch was that—

"\* \* \* all our sales approach was to the doctors, first to establish the reliability of The Stuart Company, secondly to show that we had a greater vitamin potency to offer compared to other products for less money" [R. 167].

The selling chart [Petitioner's Ex. 14] prepared with the help of Dr. Borsook, a professor at the California Institute of Technology, clearly shows that the trade name was insignificant. This chart was used to "show the doctors what vitamin value The Stuart Company had as compared to other products on the market" [R. 168]. This chart showed in dollar value "what the consumer got of all the competing items, and that was our entire sales approach" [R. 168].

Three qualified witnesses, Royce, Miller and Hanisch, testified that the trade name had no realistic value.

Having been responsible for the sales made during the period from May 5, 1941, to October 31, 1942, Mr. Hanisch was certainly in a position to know the effectiveness of the trade name. His experience during this period certainly qualified him best to judge the value of the trade name. It should be obvious that the same results could have been attained by the use of the name "Stuart Vitamins" or merely by the use of the corporate name, "The Stuart Company." This is particularly so since the chief interest of the doctors is in the vitamin content of the product and perhaps its competitive price.

The cheapness of the product was Dr. Borsook's motivating reason for interesting himself in the vitamin business. The idea of his formula, as he testified, was "sociological" [R. 524]. Dr. Borsook further testified:

"\* \* \* We wished to find a concentrate which was cheap enough for people with ordinary means to use, where abundance of supplies would be available" [R. 524].

The so-called "formula" had little financial value since a similar product could easily have been developed. This is clearly demonstrated by the testimony of Respondent's own witness. Dr. Borsook testified as follows:

"Q. Dr. Borsook, I understood on direct examination that you stated you were anxious to get this on the market at a low price so that when it was on the market others could imitate it rather quickly and make a wide distribution, so it would increase the nutritional value.

A. I hope I—

Q. I mean increase the nutrition standard.

A. I said I expected that the large distributors, when they saw this product was selling and at a price which was much lower than theirs, they would no doubt, out of sheer reasons of competition, seek to get a similar product. *And I was quite sure the large pharmaceutical houses had technical people who could do it*" [R. 551; emphasis added].

How can it realistically be stated that a trade name of so recent origin on a product which could be so easily developed would have any substantial value is beyond reason. Since the parties to the contract regarded the trade-mark so insignificantly and since the uncontradicted testimony proves conclusively that it had no real value, The Tax Court erred in allocating the sum of \$122,700.00 to it.

The Tax Court assumed that the trade name "The Stuart Formula" had a value, since during the period from May 5, 1941, to October 31, 1942, Petitioner made sales totaling \$437,613.87, and since 17,428 individual doctors had been personally contacted, and since the product was being retailed by 6,746 different drug stores. Is it reasonable to believe, under these circumstances, that the purchase by each of these drug stores of only approximately \$65.31 of the product would establish a value for the trade-mark of \$122,700.00? Certainly it takes more than that to establish a value for a trade-mark, particularly in view of the fact that the doctors, as heretofore indicated, were not interested in a name but in the vitamin potency of the product and its competitive price.

The Tax Court in its opinion [R. 58] made the statement that

"\* \* \* During that period [May 5, 1941, to October 31, 1942], 17,428 individual doctors had been

personally contacted and induced to recommend 'The Stuart Formula' to patients who were in need of additional vitamins and vitamin concentrates under the name 'The Stuart Formula' were being retailed by 6,746 different drug stores. \* \* \*"

An examination of the record fails to disclose that all of these doctors were so induced. In fact, the basis of the Court's statement is found in Mr. Hanisch's testimony [R. 179] where he stated that Petitioner had 17,428 doctors on its mailing list. There is no evidence to support the Court's conclusion that all or any of the doctors had been induced to recommend the use of the product sold under "The Stuart Formula." This should also be considered in connection with the further uncontradicted testimony of Mr. Hanisch that the Petitioner was receiving many complaints from the doctors about the imperfections of the product [R. 157].

Is it reasonable to assume that the trade-mark "The Stuart Formula" had a value of \$122,700.00 when, as shown by the record, it had been in existence only approximately 18 months? Is it reasonable to believe that the doctors of this country are so gullible that they would attach importance to a name of such recent origin? Is it reasonable to assume that these doctors would pay such little attention to the quality of the product? The fact that over this 18-month period the sales amounted to \$437,613.87 speaks more for the product than the name. This fact is clearly established by the record. Is it reasonable to assume that with a superior product, which as

the record shows Petitioner could obtain elsewhere and at at least half the cost, the same or better results could not be obtained during a similar period of 18 months, even with a new and different name? Mr. Hanisch's testimony as to the cost of establishing such a name is uncontradicted. It is factual, and clearly and convincingly establishes that no greater part of the contract consideration should properly be allocated to the trade name "The Stuart Formula" than the amount of \$20,000.00, if any allocation is to be made.

It should be remembered that:

"As part of the settlement agreement between the petitioner and Vita-Food, Vita-Food assigned to Hanisch 300 shares of stock of the petitioner which had been issued to Maxwell H. Lewis as representative of Vita-Food. \* \* \*." [R. 59.]

Recognizing the rule of law laid down in *Cleveland Allerton Hotel v. Commissioner* (C. C. A. 6), 166 F. 2d 805, The Tax Court properly allocated no part of the consideration to this stock. Such action of The Tax Court was based upon its findings that the stock had no value, as indicated by the following excerpt from the Court's opinion:

"\* \* \* The petitioner introduced competent evidence that this stock had no value on November 28, 1942, and respondent has made no contention that it did have any value. We have found as a fact that the 300 shares of stock assigned by Vita-Food had no value, and no part of the total consideration paid by the petitioner under the contract of November



28, 1942, with Vita-Food is properly allocable to the purchase of these shares of stock.” [R. 59.]

This finding of The Tax Court was based upon the testimony of Mr. Hanisch, which the Court recognizes as “competent evidence.” Why his testimony with respect to the value of the trade name should have been disregarded is difficult to understand, especially since it is supported by other witnesses who had no connection with Petitioner. The Respondent offered no evidence as to the value of the trade name, as he offered no evidence with respect to the value of the stock, and it therefore must be assumed that he had no evidence to offer as to the value of the trade name.

Reasonable people do not pay \$122,700.00 for a name that can be replaced and built up by the expenditure of approximately \$20,000.00. The value of a name under these circumstances does not realistically attain such an astronomical value, particularly where the sales promotion is confined to doctors and licensed drug stores. The record clearly shows that what Petitioner was acquiring was the release from an onerous contract which required Petitioner to confine its merchandise purchases to the products manufactured by The Vita-Food Corporation and at a price approximately more than 50 per cent higher than that at which Petitioner was able to obtain better products from others. That is the essence of the “Agreement of Settlement of Litigation and Cancellation of Contract.” It is therefore respectfully submitted that the Court erred in allocating to the trade name “The Stuart Formula” the sum of \$122,700.00 or any substantial part thereof.

E. The Tax Court Erred in That Its Ultimate Finding That the Sum of \$122,700.00 Should Be Allocated to the Trade-mark Is Inherently Improbable and Conflicts With the Specific Findings.

The Tax Court specifically found that the 300 shares of Petitioner's stock were valueless on November 28, 1942. [R. 56.] In logical support of this finding the Court found that Petitioner had sustained net operating losses totaling \$15,451.56 during the period from May 5, 1941, to October 31, 1942. The Tax Court also found that in September, 1942, Mr. Hanisch had discovered that similar vitamin products could be obtained for approximately one-half the price that Petitioner was obligated to pay The Vita-Food Corporation.

There is no finding of fact nor is there any evidence in the record that the trade-mark "The Stuart Formula" did have any real or intrinsic value on November 28, 1942. The overt evidence is that it had no value and this evidence is uncontradicted. The Tax Court, without a supporting finding, or any explanation or reference to particular evidence, simply concluded that Petitioner paid the sum of \$122,700.00 to acquire the name [R. 56-59].

This conclusion is arbitrary and the finding is entirely inconsistent with the specific findings above referred to. The Tax Court erred in failing to particularly find that the trade-mark had no value. The Tax Court could not as a matter of law conclude that Petitioner paid anything for the trade-mark, if it had made a finding, as it was requested and required to do, that the trade-mark had no value.

It is inherently improbable that Petitioner would have paid \$122,700.00, or anything more than a very nominal amount, for the trade-mark when its officers considered

the trade-mark to be without value [R. 179-180] and when their experience with the trade-mark had produced nothing but losses [Petitioner's Ex. 19]. On the other hand, it is conclusively logical that Petitioner would pay and did pay the entire consideration of \$197,700.00 for release from the onerous terms of a ten-year contract [Petitioner's Ex. 8] which required Petitioner to expend from forty to fifty per cent more [R. 49] for an inferior product [R. 135 and 202; Petitioner's Ex. 20] than would be required to secure a reliable product from a reputable manufacturer [R. 143], and which required Petitioner to purchase all of its merchandise from The Vita-Food Corporation.

We are aware of the rule that it is not the function of this Court to weigh the evidence, but certainly the Court is not bound by an arbitrary finding, contrary to the evidence, and based upon a conjecture which is inherently improbable. Such a finding is "clearly erroneous" within the meaning of that term as it is used in Section 52(a) of the Rules of Civil Procedure.

In *United States v. United States Gypsum Co.*, 333 U. S. 364, 395, the Supreme Court stated the governing rule on appeal to be as follows:

"\* \* \* A finding is 'clearly erroneous' when although there is evidence to support it, the reviewing court on the entire evidence is left with the definite and firm conviction that a mistake has been committed."

In *Howell Turpentine Co. v. Commissioner* (C. C. A. 6), 162 F. 2d 316, the Circuit Court set aside the judgment of a majority of The Tax Court for the reason that it was based upon an inference which was contrary to the

uncontradicted sworn testimony. The Court said, at page 326:

“\* \* \* The sworn testimony precludes by a principle of law the inference to the contrary which the majority sought to draw. \* \* \*.”

The finding of The Tax Court that Petitioner paid \$122,700.00 to The Vita-Food Corporation for a valueless trade-mark is “clearly erroneous.” But, as heretofore stated, the only basis to allocate any part of the contract consideration to the trade name “The Stuart Formula,” if any such allocation should be made, is the testimony of Mr. Hanisch that it would cost not more than \$20,000.00 to develop a name [R. 180].

The Petitioner submits that the determination by The Tax Court that Mr. Hanisch and The Stuart Company were obligated to pay \$122,700.00 for the trade-mark “The Stuart Formula” was, and could have been, arrived at only as a result of misinterpretation of the facts and misconstruction of the testimony, and that the testimony must be evaluated in the light of the weakness of the Government’s position. The point here under consideration is phrased in the California Code of Civil Procedure, Section 1963.6 “that higher evidence would be adverse from inferior being produced,” or to rephrase the contention, it is significant that the convincing evidence was not produced and that the Court relied upon the analysis of the facts which themselves were misinterpreted.

Certainly the Respondent cannot now complain, since—

(1) No Government witness testified that the trade-mark had any value as such.

(2) No person acting in the drug business testified to the importance of a trade-mark in distributing ethical items.

(3) No witness disputed the testimony of Messrs. Hanisch and Miller to the effect that it is the representation and responsibility of manufacturerers or distributors, as the case may be, rather than a trade name which causes acceptance of pharmaceuticals.

(4) No witness testified and no authorities were cited, and we submit that none can be, of prices paid for trademarks even in situations of successful businesses.

(5) No successful businessman or intermediary endeavored in any respect to refute the testimony of witness Hanisch as to methods of doing business and costs of established "circulation" of an ethical drug item.

(6) No testimony was produced to refute the statement of George Miller [R. 297] that "there is quite a distinct difference between what we called a so-called trademark and the proprietary or patent medicine field"; and the statement [R. 298] "you have got an entirely different value between trade names in the ethical field and trade names in the patent medicine or proprietary."

From the foregoing omissions, which are illustrative only, it is submitted that evidence of the above and comparable character which was not produced is of greater effect than the self-serving declarations which were produced by the Government and which of themselves will not substantiate either the findings or the conclusion of The Tax Court therefrom. We submit further that the entire approach of the Government to the problem under consideration is refuted in the lack of realization of the true facts disclosed in the cross-examination by the Government counsel of witness Hanisch [R. 224].

"Q. Now, Mr. Hanisch, I believe you stated that one thing about the financial stability of the Vita-



Food Corporation that had you worried, was in connection with the explosion of these bottles; that you didn't want to have to assume the financial responsibility in connection with exploding bottles and returned merchandise, is that right?

A. That is correct.

\* \* \* \* \*

A. \* \* \* I felt that if at some time we had a terrifically large return and the company, Vita-Food Corporation, were not capable—if they were not in a good financial position, I had no recourse. \* \* \*

Q. Now, I am going to ask you to look at the contract of May 5, 1941, and see if you don't find in there, a specific provision that the Vita-Food Corporation would carry insurance with respect to those products, and covering the very thing about which you have just now testified?

A. I know the situation you refer to \* \* \*

\* \* \* \* \*

A. I think you have a misconception of what product liability insurance is. Product liability insurance means this: That, if you or your child would swallow some of this [182] stuff and you are injured, you have insurance on that, but it does not provide for bad merchandise. Say, if \$20,000.00 of it blew up, or I had to return it, it does not insure against a return of merchandise. \* \* \* It would not cover what you are talking about." [R. 223-225.]

The same type of misconception of the realities of the transaction permeated the entire presentation and it is submitted that The Tax Court was misled into misinterpretation of the realities of the situation confronting the parties when the settlement agreement was executed. We repeat those realities at this point, as follows:

The Stuart Company had on November 28, 1942, been in existence only since March, 1941. Its first shipments

were not made until May 15, 1941. It was obligated under an insufferable contract with impossible quotas to purchase inferior merchandise from a secretive manufacturer at double the cost at which acceptable drugs could be obtained from reliable pharmaceutical manufacturers [R. 49].

Whether it used the name "The Stuart Formula" or not it could make no purchases from anyone other than The Vita-Food Corporation. Its losses amounted to \$15,000.00. Its relations with the other parties of the contract were strained and unsatisfactory. It had been purchasing a product which was not the product it believed it was buying. There was no secret formula. Unless in some way it could avoid further entanglement with The Vita-Food Corporation, its past experience demonstrated that it could look forward to nothing but continued losses. Its sales policy and its selling prices were under the domination of a party whose competence and integrity The Stuart Company distrusted. Mr. Hanisch, whose name had not theretofore been connected with a failure, loaned to the company \$70,000.00 which could not be recovered unless relief from the contract was obtained. He was therefore in jeopardy not only for the loss of his investment, but the situation confronting the parties was even more desperate in that Mr. Hanisch had not received any salary.

These considerations, and these considerations only, were the motivating cause for the execution of the settlement agreement which the witness Wiseman testified was intended to mean what it said and which agreement nowhere purports to sell a so-called capital asset for \$122,700.00 or any other sum.

II.

**The Trade-mark in the Hands of the Vita-Food Corporation Was Worthless as a Matter of Law and They Had No Legal Right or Effective Ability to Execute an Assignment.**

The Petitioner was the sole, only and exclusive user of the trade-mark "The Stuart Formula" [R. 130]. The name of The Vita-Food Corporation did not appear on the label [Petitioner's Ex. 9] or on any correspondence or literature [R. 130]. The Tax Court made the statement in its opinion that much good will had been built up, and pointed out that 17,428 doctors had been personally contacted and the product was being retailed by 6,746 different drugstores on October 31, 1942 [R. 58]. For the sake of argument only, let us grant that there was theoretic or potential good will—but whose good will? The Vita-Food Corporation never claimed to own any good will. Its name was utterly unknown to the doctors and drug outlets, and only Petitioner's name, "The Stuart Company," through Petitioner's representatives, was associated with the product. Any good will which may have existed was in connection with merchandising methods, personal contacts, trade lists, and demonstrated integrity. It was the exclusive property of Petitioner. There is no contrary claim or assertion in the record and none could exist in reason or logic.

What then did The Vita-Food Corporation purport to own on November 28, 1942, as a matter of law, by its claim that it owned the trade-mark? In *Nims on Trade-Marks* page 506, Sec. 188, it is said:

"The trade-mark is the expression, the symbol, of part or all of the good-will of the business using the

mark. Separate from the good-will of the business it identifies, a trade-mark is useless, valueless.”

The Supreme Court of the United States has said:

“\* \* \* There is no property in a trademark apart from the business or trade in connection with which it is employed. \* \* \*”

*American Steel Foundries v. Robertson*, 369 U. S. 380, citing many supporting authorities.

See also, the following comment at 26 R. C. L. 838:

“The right to a trademark or trade name cannot exist as a mere abstract right, independent of or disconnected from the business in which it is used.”

The Vita-Food Corporation purported to own something on the critical date, and The Tax Court has found that it conveyed something, which under the circumstances they could not legally or effectively possess at that time. They lurked in the background cloaked in militant anonymity. The very whereabouts of their manufacturing plant and laboratory were never disclosed even to Petitioner [R. 169] for undoubtedly good, but unexplained, reasons [R. 615]. There can certainly be no good will connected with that which is completely unknown, and we have found that a trade name is not property and cannot exist as a matter of law separate and apart from the business with which it is associated.

The case of *Distillers Brands, Inc. v. American Distilling Co.*, 26 Fed. Supp. 988, presented to the Court a strikingly similar fact situation. In that case, the distiller or manufacturer of bulk whiskey bottled and sold the same to its distributor. The distiller originated the trade name “King’s Pride” and designed the label which was placed on the bottle. After the distributor had used

this trade name in its business for a short time it began making purchases of whiskey from another distiller, and directed the second distiller to label the product "King's Pride" in the same manner. The original distiller sought an injunction and an accounting of profits because of alleged infringement of trade-mark and unfair competition. The Court succinctly stated the applicable law as follows:

"\* \* \* Where a trademark indicates a distributor of merchandise rather than the maker, it is the distributor who acquires the trademark rights. For the public associates the goods so marked with the distributor and knows not the identity of the maker.  
\* \* \* The fact that it was the plaintiff who suggested the adoption of 'King's Pride' as a trade-mark for the King Company amounts to nothing. The plaintiff was bound to know that the trademark as shown on the labels would become the brand of the King Company. So the plaintiff had no trade-mark rights in King's Pride whiskey."

It might be that The Vita-Food Corporation owned the trade-mark in a very technical sense when the contract of May 5, 1941 [Petitioner's Ex. 8], was executed, if in truth the officers of The Vita-Food Corporation conceived of the trade-mark as they claimed [R. 577, 578]. It might be that the contract itself vested ownership of the embryo trade-mark in The Vita-Food Corporation, but as pointed out by the Court in the above-quoted case they were bound to know that the trade-mark would become The Stuart Company's property by virtue of its use where the manufacturer was anonymous so far as the consuming public was concerned. At least they were bound to know that whatever hollow right remained in their hands was not valuable property and could not be effectively sold or assigned by them in gross or wholly apart from the busi-



ness or good will of which it had become an inseparable part.

What happens as a matter of law (California law) if one attempts to sell or assign the naked title to a trade-mark.

“\* \* \* Appellant urges as a ground for reversal that a trade-mark or name cannot be sold or assigned except in connection with an assignment of the particular business in which it has been used. With this statement we agree \* \* \*. ‘\* \* \* The physical elements or assets of a business may not be sold to one and the good will and trade-name thereof to another, for, when the good will and trade-name is separated from the business to which it applies, it is thereby destroyed, and cannot thereafter be the proper subject of a sale. \* \* \*’ \* \* \*

For these reasons the defendants owned nothing which they could be required to separately transfer to the receiver, and their assignment to the receiver passed no title. *In re Jaysee Corset Co.* (D. C.), 201 F. 779; 63 Cor. Jur. 513. ‘It may be stated as a general rule that a trademark or trade name is not an article of property that passes from hand to hand by assignment separate from the business of the owner of the mark or name, but that, in order to convey the right of user, *the transfer must be coupled with the transfer of some product or business with which it has become identified.* \* \* \*’ (*Ward-Chandler Bldg. v. Caldwell*, 8 Cal. App. 2d 375, 47 Pac. 2d 758 at p. 760—emphasis added.)

The law of California is generally accepted and has been accepted by the Circuit Courts of Appeal and The Tax Court as controlling in tax cases. See *Sommers v.*

*Commissioner* (C. C. A. 10), 63 F. (2d) 551 at page 552 where the Court said:

“\* \* \* Good will is not susceptible of separate ownership or transfer. It arises only out of a particular business, and has no existence apart from it. \* \* \*”

And also see *Estate of Henry A. Maddock, et al. v. Commissioner*, Docket No. 25890, 16 T. C. No. 41, promulgated February 15, 1951, where the Court held:

“\* \* \* However, in fixing the value of the good will of a business, it is equally important to recognize that good will exists as a valuable asset only as an integral part of a going business and cannot be sold, donated, or devised apart from the going business in which it was developed and to which it is thereafter inseparably attached. \* \* \*”

In the Cancellation Agreement of November 28, 1942 [Petitioner's Ex. 12] there is certainly no suggestion, nor is there any suggestion in the record or findings of The Tax Court that The Vita-Food Corporation was selling any formula, product or business, or any tangible or intangible thing, with which the trade-mark had been associated. There was merely a casual quitclaim of the trade-mark, without warranty, and a promise to execute an assignment, if requested.

But this action is entirely consistent with the rights and interests of the parties in the premises. The trade-mark was valueless, as we have seen. In the hands of The Vita-Food Corporation it was not property, and they could not execute an effective assignment under California law. But the trade mark was registered in their name [Petitioner's Ex. 15] fraudulently or not, and a simple

quitclaim or formal assignment would be a logical step in forever “divorcing” the parties, one from the other.

The Tax Court has arbitrarily determined that Petitioner paid a substantial sum of money to purchase a thing which was valueless from a “seller” who as a matter of law could not own it or execute a valid assignment. In other words, The Tax Court has found that Petitioner paid the sum of \$122,700.00 for a nullity.

### Conclusion.

There is no substantial evidence or evidence legally sufficient to sustain the finding of The Tax Court that Petitioner paid the sum of \$122,700.00 to purchase a trademark. The finding is arbitrary.

In arriving at the finding the Court ignored fully corroborated and uncontradicted evidence, which, if considered at all, would preclude such a finding. Evidence which is material, relevant, probable, consistent, uncontradicted and not discredited cannot be disregarded or ignored by the Trial Court. The ultimate result reached by The Tax Court is inconsistent with its specific findings and based upon a conjecture which is inherently improbable. The decision is erroneous as a matter of law and must be reversed.

Dated June 1, 1951.

Respectfully submitted,

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In the United States Court of Appeals  
for the Ninth Circuit

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THE STUART COMPANY, A CORPORATION, PETITIONER

*v.*

COMMISSIONER OF INTERNAL REVENUE, RESPONDENT

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COMMISSIONER OF INTERNAL REVENUE, PETITIONER

*v.*

THE STUART COMPANY, A CORPORATION, RESPONDENT

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ON PETITIONS FOR REVIEW OF THE DECISION OF THE TAX  
COURT OF THE UNITED STATES

---

BRIEF FOR THE COMMISSIONER

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The payments made by the taxpayer company to Vita-Food Corporation under the agreement of November 28, 1942, constituted capital expenditures in that they were for the purchase of the trade-mark (The Stuart Formula) and hence are not deductible under Section 23(a) of the Internal Revenue Code as ordinary and necessary expenses.....	9
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**In the United States Court of Appeals  
for the Ninth Circuit**

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No. 12,845

THE STUART COMPANY, A CORPORATION, PETITIONER

*v.*

COMMISSIONER OF INTERNAL REVENUE, RESPONDENT

---

COMMISSIONER OF INTERNAL REVENUE, PETITIONER

*v.*

THE STUART COMPANY, A CORPORATION, RESPONDENT

---

*ON PETITIONS FOR REVIEW OF THE DECISION OF THE TAX  
COURT OF THE UNITED STATES*

---

**BRIEF FOR THE COMMISSIONER**

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**OPINION BELOW**

The memorandum findings of fact and opinion of the Tax Court (R. 41-59) are unreported.

**JURISDICTION**

These petitions for review (R. 642-649, 652-654) involve federal income, declared value excess profits and excess profits taxes for the fiscal years ended March 31, 1943, March 31, 1944, and March 31, 1945. On Au-

gust 16, 1946, the Commissioner of Internal Revenue mailed to the taxpayer notice of a deficiency in the total amount of \$137,467.87. (R. 12-13.) Within ninety days thereafter and on November 12, 1946, the taxpayer filed a petition with the Tax Court for a redetermination of that deficiency under the provisions of Section 272 of the Internal Revenue Code. (R. 3, 6-11.) The decision of the Tax Court was entered on September 22, 1950. (R. 60.) The case is brought to this Court by petitions for review filed December 21, 1950 (R. 649, 654), pursuant to the provisions of Section 1141(a) of the Internal Revenue Code, as amended by Section 36 of the Act of June 25, 1948.

#### QUESTION PRESENTED

Whether certain payments made by taxpayer, the Stuart Company, under the agreement of November 28, 1942, were made, in part or in whole, to secure the cancellation of an onerous contract and hence are deductible as an expense under Section 23(a) of the Internal Revenue Code, or whether they were made, in part or in whole, for the purchase of a trade-mark, and hence constitute a capital expenditure under Section 24(a) of the Internal Revenue Code.

#### STATUTE INVOLVED

Internal Revenue Code:

##### SEC. 23. DEDUCTIONS FROM GROSS INCOME.

In computing net income there shall be allowed as deductions:

(a) [As amended by Sec. 121(a), Revenue Act of 1942, c. 619, 56 Stat. 798] *Expenses*.—

(1) *Trade or Business expenses*.—

(A) *In General*.—All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or busi-

ness, including a reasonable allowance for salaries or other compensation for personal services actually rendered; traveling expenses (including the entire amount expended for meals and lodging) while away from home in the pursuit of a trade or business; and rentals or other payments required to be made as a condition to the continued use or possession, for purposes of the trade or business, of property to which the taxpayer has not taken or is not taking title or in which he has no equity.

\* \* \* \* \*

(26 U.S.C. 1946 ed., Sec. 23.)

#### SEC. 24. ITEMS NOT DEDUCTIBLE.

(a) *General Rule.*—In computing net income no deduction shall in any case be allowed in respect of—

\* \* \* \* \*

(2) Any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or estate;

\* \* \* \* \*

(26 U.S.C. 1946 ed. Sec. 24.)

#### STATEMENT

The facts as found by the Tax Court (R. 41-56) may be summarized as follows:

Taxpayer company was organized by Arthur Hanisch for the purpose of distributing the vitamin concentrate manufactured by Vita-Food under the trade name "The Stuart Formula" by making a personal approach to doctors and inducing them to recommend the product to their patients. Of taxpayer's 1,000 shares of stock Hanisch retained 600 shares,



transferring 250 shares to his associates and the remaining 150 shares to the representatives of Vita-Food. (R. 43.)

Hanisch also organized the Shaler Food Products Company to distribute through grocery stores a similar vitamin concentrate manufactured by Vita-Food under the trade names "Vitaplex" and "Calplex." The stock of this company was distributed in the same manner as that of the taxpayer. (R. 43-44.)

On May 5, 1941, the two new corporations, Vita-Food and Hanisch entered into a formal written contract covering certain prior informal agreements between Hanisch and Vita-Food. Under this contract the taxpayer agreed that the concentrate be sold and distributed under Vita-Food's trade-mark "The Stuart Formula," and was to retail at a given price. The Shaler Food Products Company agreed to sell the concentrate under the trade-mark "Vitaplex," and that it be retailed at a given price. Under this contract it was also agreed that the two corporations would purchase an average of 1,500 pints of the concentrate per day up to May 1, 1942, and after May 1 an average of 2,000 pints per day, failing which for any period of 60 days, Vita-Food could terminate the contract. The two corporations also agreed not to sell any product other than those manufactured by Vita-Food. It was specifically provided that any and all trade-marks or labels under which the concentrates were sold were to remain the property of Vita-Food. The contract was to remain in full force for a period of ten years, and could be extended for a further period of ten years at the option of the two new corporations; provided, however, that the contract could be terminated by Vita-Food if for any 60 consecutive days the corporations had not purchased the minimum quantities specified. (R. 44-47.)

Certificates of registration of the trade-mark "The Stuart Formula" were issued to Vita-Food by the State of California and by the United States Commissioner of Patents. (R. 48.)

The operations of the Shaler Food Products Company were never successful and that corporation was merged with the taxpayer on July 3, 1942. The taxpayer subsequently received permission from the Commissioner of Corporations to increase its capital stock by 1,000 shares, and these additional shares were issued to its original stockholders in proportion to their holdings. (R. 48.)

The taxpayer was never able to meet the purchase quotas called for in the contract, and on October 8, 1942, Vita-Food served notice upon it, stating that as it had failed to meet the quotas for a 60-day period the taxpayer's exclusive right to sell was terminated 60 days after the service of the notice; and—"In all other respects, the contract remains in full force and effect." (R. 49.)

The taxpayer replied that while it would endeavor to reinstate the contract by removing the shortages, it felt that it would be impossible. And further, the taxpayer answered Vita-Food by stating that if it were unable to reinstate the contract, it would regard the contract as terminated for all purposes. Taxpayer then consulted three trade-mark counsel on the question of the ownership of the trade-mark "The Stuart Formula." Two of these counsel gave as their opinion that Vita-Food owned the trade-mark. The other counsel stated that the registration of this trade-mark was cancellable upon application by the taxpayer. (R. 49-50.)

Hanisch conferred with Vita-Food in an attempt to settle their differences. He was unsuccessful and on November 23, 1942, the taxpayer and Hanisch sent

Vita-Food a notice of rescission of the contract, based upon fraud in the inception of the contract and failure of consideration in its performance. (R. 50-51.)

On November 25, 1942, Vita-Food filed suit in the Superior Court of the State of California for the County of Los Angeles, in which it asked that court to permanently enjoin the taxpayer and Hanisch from using the trade-mark "The Stuart Formula" upon any product not manufactured by Vita-Food. The court issued a restraining order on the same day, as requested by Vita-Food, and ordered the taxpayer to appear on a specified date and show cause why the restraining order should not be made permanent. (R. 51.)

Prior to the expiration of the time for filing an answer, a settlement of differences was reached. An agreement was entered into entitled "Agreement of Settlement of Litigation and Cancellation of Contract." Under this agreement Vita-Food agreed to dismiss its action in the state court with prejudice, and all parties agreed that the agreement of May 5, 1941, was cancelled. Vita-Food quit-claimed to the taxpayer the trade name "The Stuart Formula." The taxpayer and Hanisch agreed to pay Vita-Food \$75,000; \$35,000 was to be paid upon the execution of the agreement and \$40,000 was payable at the rate of \$4,000 per month. In addition, the taxpayer agreed to pay Vita-Food on a royalty basis and as further consideration for the execution of the agreement the sum of \$122,700; this amount was to be paid at the rate of seven and one-half cents per unit of vitamin concentrate sold and marketed by the taxpayer beginning October 1, 1943, and continuing until the above sum had been fully paid. (R. 51-53.)

As early as February 1942, the taxpayer had begun negotiations with Vita-Food in an attempt to modify

the contract of May 5, 1941. It desired to acquire an express owner's interest in the trade-mark and wanted to obtain lower purchase quotas and lower purchase costs. On August 10, 1942, it rejected a proposed revision of the contract under which it was given a conditional one-half interest in the trade-mark provided its sales reached and maintained a certain level. (R. 48-49.)

On the basis of the foregoing, the Tax Court in a decision of Judge Harron held (R. 59) that the taxpayer was obligated to pay \$75,000 under the contract of November 28, 1942, in order to secure the cancellation of an onerous contract, and \$122,700 for the purchase of the trade-mark "The Stuart Formula." The present appeals followed.

#### STATEMENT OF POINTS TO BE URGED BY THE COMMISSIONER

The statement of points relied upon by the Commissioner of Internal Revenue appears in the record at pages 655-656. It may be summarized as follows:

That the court below erred:

1. In holding that the taxpayer was obligated to pay \$75,000 to Vita-Food under the contract of November 28, 1942, in order to secure the cancellation of an onerous contract and that this amount is properly deductible during the fiscal year 1943 as an ordinary and necessary business expense.

2. In failing to uphold the determination of the Commissioner that the entire payments of \$197,700 (\$122,700 plus \$75,000) were capital expenditures made to purchase a trade-mark and are therefore non-deductible.

#### SUMMARY OF ARGUMENT

The issue in this case relates to the consideration under a settlement agreement between the taxpayer



and Vita-Food Corporation. The taxpayer contends that the amounts paid by the taxpayer were for the cancellation of an onerous contract and hence are deductible as ordinary and necessary expenses. The Commissioner contends that the amounts paid were for the purchase of a trade-mark and hence are capital expenditures which are non-deductible. The Tax Court allocated a certain portion of the payments to the cancellation and the remaining portion to the purchase of the trade-mark "The Stuart Formula."

It is manifest that the finding that any part of the consideration for this settlement agreement was the cancellation of the 1941 contract is clearly erroneous. The attorney for Vita-Food testified that he at first demanded \$300,000 to \$350,000 for the trade-mark and that he was instructed not to sell the trade-mark for less than \$200,000. It was actually sold for \$197,700. He also testified that his company considered that the only consideration for the payment was the purchase of the trade-mark.

Moreover, the settlement agreement itself is not subject to the construction that any substantial part of the payments was made to buy off the onerous contract. It seems clear that the original contract had been terminated before the agreement involved here was entered into. The termination of the taxpayer's exclusive right to use the trade-mark completely destroyed the only consideration binding the taxpayer to the contract. Vita-Food's suit in the state court merely asked that the use of the trade-mark be enjoined and for no other relief. In such circumstances the finding that the cancellation of the contract constituted any part of the consideration is persuasive that a mistake has been committed by the trial court which is reviewable by this Court.

The argument that the trade-mark in the hands of the



Vita-Food Corporation was worthless as a matter of law is also without merit. If a trade-mark cannot be transferred without the good will that has been built up, then it is evident that the taxpayer was buying the good will that it had built up for the owner of the trade-mark.

#### ARGUMENT

**The payments made by the taxpayer company to Vita-Food Corporation under the agreement of November 28, 1942, constituted capital expenditures in that they were for the purchase of the trade-mark (The Stuart Formula) and hence are not deductible under Section 23(a) of the Internal Revenue Code as ordinary and necessary expenses**

Section 23(a)(1) of the Internal Revenue Code, *supra*, provides for the deduction of—

All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business including \* \* \*

The basis of the taxpayer's position is that the payments made to the Vita-Food Corporation under the agreement of November 28, 1942, were for the cancellation of an onerous contract and hence are deductible as ordinary and necessary expenses under Section 23(a) of the Code. Contrariwise, the Commissioner contends that the payments were for the purchase of the trade-mark (The Stuart Formula) and therefore are non-deductible capital expenditures<sup>1</sup> under Section 24(a) of the Internal Revenue Code, *supra*. The Tax Court concluded (R. 59) that under the 1942 agreement the taxpayer obligated itself to pay the sum of \$122,700 for the purchase of the trade-mark "The

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<sup>1</sup> *Seattle Brewing & Malting Co. v. Commissioner*, 6 T.C. 856, affirmed *per curiam*, 165 F. 2d 216 (C. A. 9th); *Aluminum Products Co. v. Commissioner*, 24 B.T.A. 420; I. T. 2402, VII-1 Cum. Bull. 94 (1928); See also *Murphy Oil Co. v. Burnet*, 55 F. 2d 17 (C. A. 9th).

Stuart Formula'' and \$75,000 for relief from the terms of an onerous contract (by cancellation).<sup>2</sup>

It is of course well settled that the function of evaluating the evidence, of drawing inferences from underlying facts, of determining the weight to be accorded to the testimony of witnesses, of drawing the ultimate factual conclusions from the entire evidence, and of ascertaining the overall persuasiveness of the moving party's case are all matters committed to the fact finder. They are not to be reconsidered, *de novo*, by the reviewing court. Therefore, the ultimate conclusions of the Tax Court will not be disturbed on review unless "clearly erroneous," with proper regard being given to the opportunity "of the trial court to judge of the credibility of witnesses." Section 1141(a), Internal Revenue Code, as amended by Section 36 of the Act of June 25, 1948, c. 646, 62 Stat. 869. Rule 52(a), Rules of Civil Procedure; *United States v. Yellow Cab Co.*, 338 U.S. 338, 340-342; *United States v. Gypsum Co.*, 333 U.S. 364, 394-395; *Ruud v. American Packing & Provision Co.*, 177 F. 2d 538, 540 (C.A. 9th); *Grace Bros. v. Commissioner*, 173 F. 2d 170, 173-174 (C.A. 9th). Furthermore, the judgment reached by the Tax Court on the basis of the whole evidence will not be reversed if it is supported by substantial competent evidence unless the reviewing court reaches "the definite and firm conviction that a mistake has been committed". *United States v. Gypsum Co.*, *supra*, p. 395.

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<sup>2</sup> There is no basis in the record for this division of the agreed payment; the November 28 settlement does provide for the payment of \$75,000 on a more or less cash basis, and then \$122,700 as "additional consideration" (R. 53), on a so-called "royalty basis", but there is no indication that the separation in the settlement was based on what the parties attributed to the value of a release from the onerous contract or the purchase of the trade-mark "The Stuart Formula." This "compromise" of the case was reached by the Tax Court, even though the position was not argued by the taxpayer or the Commissioner.

However, in the instant case, in which the taxpayer and the Commissioner have both filed petitions for review, it is manifest that the Tax Court's decision is clearly erroneous to the extent that any portion of the payments made by the taxpayer was attributed to the cancellation of the onerous contract and it follows that the taxpayer is wrong in contending that the entire sum should be attributable to the cancellation of the contract.

In the first place, it should be emphasized that the testimony of the organizer of taxpayer, Arthur Hanisch, that the taxpayer was not interested in the trade-mark "The Stuart Formula" and would not have paid anything for it (R. 179, 210) <sup>3</sup> is unpersuasive and also irreconcilable with certain actions prior to and during the negotiations for the settlement agreement. It was continually insisted that Vita-Food give the taxpayer an owner's interest in the formula. (R. 580-581.) Considerable expense was incurred to get from three different firms legal opinion dealing solely with whether or not the taxpayer could obtain the title to the trade-mark. (R. 155, 253.) The offer of Oscar Wiseman, attorney for Vita-Food, was refused; he offered to have Vita-Food execute written general releases, solely in return for a written disclaimer by the taxpayer to any interest in the trade-mark. (R. 443.) Certainly the taxpayer's continued use of the trade-mark is not consistent with a conclusion that it was valueless. Moreover, Mr. Wiseman testified that he asked \$300,000 to \$350,000 for the trade-mark (R. 453-454),<sup>4</sup> and Mr. Lewis, the managing director of the Vita-Food Corpo-

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<sup>3</sup> See also the testimony of Donald Royce. (R. 407-408.)

<sup>4</sup> These statements by witnesses for the Commissioner as to what they considered the value of the trade-mark are in the teeth of taxpayer's argument (Br. 36) that the Commissioner offered no evidence as to value.

ration, testified (R. 607) that he instructed Mr. Wiseman not to sell the trade-mark for less than \$200,000.

There were several immediate circumstances leading up to the settlement agreement involved herein. On October 8, 1942, Vita-Food served written notice on the taxpayer that "you have failed to meet your quotas for the 60-day period \* \* \* [exclusive right to use the trade-mark] is hereby terminated." (R. 49.) The taxpayer answered on October 12, 1942, and said it should attempt to reinstate the contract of May 5, 1941, but that if it were unable to do so, it would regard the entire contract as being at an end. (R. 49-50.) Beginning on November 18, 1942, there were a series of conferences with Vita-Food in order to settle their differences. (R. 50.) On November 25, Vita-Food filed a suit asking that the taxpayer be enjoined from using "The Stuart Formula" and a temporary restraining order was issued. (R. 51.) The settlement occurred on November 28, and on November 30, Vita-Food delivered to the taxpayer the certification of registration of "The Stuart Formula." (R. 55.) While the settlement agreement contained cancellation recitals, it is clear from the record that the taxpayer could and did obtain this cancellation without any cost. Several times during the course of the negotiations Mr. Wiseman told Mr. Hanisch and Mr. Dunlap that Vita-Food did not contend that the taxpayer was bound by the May 5 contract after Vita-Food's October 8 notice of termination of taxpayer's exclusive right to use the trade-mark (R. 460-461), and that if all that the taxpayer wanted was a release from the May 5 contract, Vita-Food would give that, on the condition that the taxpayer sign a disclaimer of any right or interest in and to the trade-mark (R. 443-444, 448-449).

Corroborative of this statement of Mr. Wiseman is the nature of the law suit instituted by Vita-Food on



November 25, 1942. This injunction suit by Vita-Food was initiated because the taxpayer claimed ownership of the trade-mark and intended to buy vitamin products from other sources and market them under the trade-mark. (R. 466-467.) Thus, the purpose of the injunction suit was to enjoin the taxpayer from using the trade-mark on products not manufactured by Vita-Food. If Vita-Food had been contending that the taxpayer was bound under the May 5 contract, the injunction suit of May 25 would also have sought to enjoin the taxpayer from buying vitamin products from other manufacturers. The filing of this limited injunction suit by Vita-Food was notice to the taxpayer that Vita-Food had no intention of trying to hold the taxpayer to the May 5 contract and was in effect acquiescence in the taxpayer's cancellation notice of October 12, 1942, and its notice of rescission of November 23, 1942. Also in this connection it should be noted that paragraph 10 of the May 5, 1941, contract (R. 46) provided that the cancellation of part of taxpayer's right under the contract had the effect of terminating all of its rights. This provision is as follows:

\* \* \* and the right or rights of first parties to distribute and/or market or offer for sale such products or any other product hereafter produced by second party shall continue only so long as this agreement is in full force and effect.

It follows that, in any event, the contract would not have been enforceable against the taxpayer after the effective date of the cancellation notice of October 8 (December 9). Thus, at the time of the November 28th agreement, the only thing actually remaining about which to bargain was the ownership of the trade-mark "The Stuart Formula." As Mr. Wiseman testified (R. 473):

We were selling a trade-mark. That was the consideration.



And as he further stated on cross-examination when questioned relative to the fact that the \$197,700 was paid merely for the trade-name "The Stuart Formula" (R. 501):

Yes, I mean to say that. And, as I told Mr. Dunlap and Mr. Hanisch at the time, the rest of these claims and rescission action was so much eye wash. I told them that with emphasis. I certainly do feel that the only thing that was under discussion, that permitted any discussion was the trade-mark, and I so told Mr. Dunlap and I so told Mr. Hanisch.

Therefore, the conclusion of the Tax Court (R. 58) that the taxpayer entered into negotiations with Vita-Food to effect a settlement of the contract and that \$75,000 of the amount paid to Vita-Food should be allocated to this item, is clearly erroneous.

Moreover, it is difficult to understand why, under the circumstances, even if Vita-Food had taken the position that the taxpayer was still bound to the contract of May 5, the taxpayer would or should have paid more than a nuisance amount, inasmuch as the termination of the taxpayer's exclusive right to use the trade-mark destroyed the only consideration binding the taxpayer to the contract. Thus, the contract was unenforceable, and being under advice of counsel, it is clear that the taxpayer would not have paid anything to cancel an unenforceable contract. The taxpayer's lawyer, in fact, admitted that he felt perfectly sure that he could have the contract cancelled. (R. 328-329.) Moreover, his reasons for saying that he permitted his client to pay \$197,700 for Vita-Food's acquiescence in a cancellation of the contract because it would involve the disclosure of things that would destroy the public confidence in taxpayer's product (R. 330, 339) are unconvincing. It seems manifest

that a suit for cancellation would have involved no such risk.

The taxpayer attempts to infer (Br. 18) that since the royalty payments under the settlement were to begin a year after the date of the agreement it follows that the payments were not for the purchase of the trade-mark. However, this loses sight of the contention of the Commissioner on this appeal that the entire amount—the first \$75,000 and the later \$122,700—was paid for the purchase of the trade-mark.

The taxpayer's contention is (Br. 23-25), in effect, that the agreement involved herein by its terms indicates that the amounts paid were for the cancellation of the contract. However, it is manifest that the only real significance that can be given to the presence in the settlement agreement of the various cancellation recitals, such as in the title "Agreement of Settlement of Litigation and Cancellation of Contract" (R. 51), is that the original contract would not otherwise have terminated under its own provisions until several days later, i.e., December 9, 1942, or sixty days from the date of Vita-Food's cancellation notice, October 8, 1942. Also, in any arrangement of this kind, it seems clear that the parties would want to clarify each and every facet of the disagreement. It is customary and usual in agreements of this character to incorporate a provision for the release and discharge of all possible past, present or future claims or demands arising out of the transaction. Such provisions of an indenture are of little importance in the determination of the parties' intent. Cf. *Inaja Land Co. v. Commissioner*, 9 T. C. 727. In addition it is evident that the agreement was so drafted as to give the best possible basis for the deduction of the cost of the trade-mark as a business expense. This is consistent with the fact that the payments were stated to be "on a royalty basis." (R.

53.) This was the alternate method of terming the payments used in the taxpayer's petition for review (R. 6-11), and amended petition for review (R. 25-31) in the Tax Court. The taxpayer here has dropped the "royalty basis" claim and merely says that the payments were for the cancellation of an onerous contract.

The taxpayer argues (Br. 25) that Vita-Food agreed to execute assignments of the trade-mark "if requested." According to the taxpayer, this indicates that the trade name had little significance to the contracting parties. It should initially be noted that this clause is taken from its context, and was inserted in the agreement *only after Vita-Food had quitclaimed its right and title in the trade-mark to taxpayer*. It also overlooks the important fact that the taxpayer did request and receive the assignments. Mr. Wiseman, when asked if he would use this language in making a purchase for his client stated (R. 506):

Well, that language is actually Mr. Dunlap's, but I agreed to it. I see no reason why that language should not be used again in a similar case. The point was made quite clear and we all agreed that we would make an assignment in proper form so that the trade-marks of record with the Patent Office and with the California Secretary of State would show of record the ownership by Stuart Company, and that it was understood and agreed that any time they wanted it they could have an appropriate assignment.

The fact they did not formally request it or present a form until later made no difference to me. We knew that sooner or later, whenever they got around to it, we would execute appropriate assignments to be recorded with the respective public authorities.

The taxpayer further argues (Br. 37) that the fact of net operating losses in the Stuart Company during the period of March 27, 1941, and October 31, 1942 (R.

55), indicates that the trade name "The Stuart Formula" was therefore worth very little. This fails to take into consideration the fact that these were the formative years and that it would not be expected that the sale of a product of this kind would be gainful until the product had been well advertised and all the preliminaries had been performed. The taxpayer was aware of this and for that reason was willing to pay this sum for the purchase of the trade-mark and reap the benefits of two years of groundwork that had already been carefully laid.

The inconsistency of the taxpayer's position is illustrated by the fact, as already pointed out, *supra*, that it originally contended that the amounts were not for the cancellation of an onerous contract but were, at least in part, payments to Vita-Food representing royalties. This is analogous to the situation in *Battle Creek Food Co. v. Commissioner*, decided February 28, 1949 (1949 P-H T.C. Memorandum Decisions, par. 49,049), affirmed *per curiam*, 181 F. 2d 537 (C. A. 6th), in which the question was whether or not the payments under a settlement agreement represented royalties or the purchase of certain intangibles such as trade names, trade-marks, secret process and formulae. It was held that the total amount was in payment for the intangibles. The taxpayer, however, took the position in the trial proceedings that the entire amount constituted payment of royalties whereas in the unamended petition it had been alleged that a certain portion of the payments represented payment for the intangibles. This inconsistency of approach was revealing of a basic weakness in the taxpayer's tax treatment in that case and it should so be considered here. In fact, by first terming the payments "royalties," it is clear that the taxpayer was thinking in terms of the trade-mark rather than cancellation of the contract of May 5, 1941.



Moreover, even if the cancellation of the contract constituted a part of the consideration for the payments made by the taxpayer, it did not establish a basis for the allocation of a portion of such payment to the cancellation. Indeed, the lack of basis for allocation of any part of the payments to the cancellation is persuasively illustrated by the vacillating nature of the taxpayer's claims. As pointed out *supra*, the taxpayer in the petition before the Tax Court (R. 6-11, 25-31) alleged that the payments were either for cancellation or royalties and now the taxpayer is alleging only that they were for cancellation. And even though part of the consideration might be susceptible of allocation to ordinary and necessary expenses, the whole will be considered capital outlay unless the taxpayer proves the proper distribution. *Aluminum Products Co. v. Commissioner*, 24 B.T.A. 420; *Battle Creek Food Co. v. Commissioner*, *supra*.

The argument of the taxpayer (Br. 43-48) that the trade-mark "The Stuart Formula" in the hands of the Vita-Food Corporation was worthless as a matter of law is misleading and is completely without merit. The taxpayer misconceives the concept of the early trade-mark doctrine<sup>5</sup> that a trade-mark could only be transferred with the business to which it relates. See 2 Callman, *The Law of Unfair Competition and Trade-marks*, Sec. 78 (1945). It is argued that, since Vita-Food did not have any good will to transfer and that since no physical assets were transferred by the settlement agreement, merely the naked name or trade-mark was transferred. From this premise it is further contended that nothing of value was transferred since the trade-mark owner does not have a right to a particular

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<sup>5</sup> The present development of the law of trade-marks is to the effect that it is the intangible value (good will) and not the physical assets which the trade-mark represents.



word but to the word used as the symbol of particular goods. In this case, however, there can be no doubt that a valuable good will attached to the trade-name, then the property of Vita-Food, even if it were the taxpayer that had built up such good will. Thus, the taxpayer was purchasing a trade-mark with the accompanying good will, even though the good will might have been created by it. In substance, the taxpayer had been improving the property of Vita-Food and had to pay for that improvement upon receipt of title. This is analogous to a lessee's making permanent improvements to realty and later having to purchase these improvements at the time he buys the original property.

A consideration of all the facts of this case indicates that the finding of the Tax Court—that any part of the payment made by taxpayer to Vita-Food represented a payment for the cancellation of the May 5, 1941, contract—is in no sense supported by the record and is clearly erroneous.

#### CONCLUSION

Accordingly, the Tax Court should be reversed in so far as it held that any part of the payment made by taxpayer under the 1942 agreement to Vita-Food is deductible as a business expense.

Respectfully submitted,

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JULY, 1951.



No. 12845.

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

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THE STUART COMPANY,

*Petitioner,*

*vs.*

COMMISSIONER OF INTERNAL REVENUE,

*Respondent.*

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## REPLY BRIEF IN BEHALF OF THE STUART COMPANY, PETITIONER.

---

A. CALDER MACKAY,  
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No. 12845.

IN THE  
**United States Court of Appeals**  
FOR THE NINTH CIRCUIT

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THE STUART COMPANY,

*Petitioner,*

*vs.*

COMMISSIONER OF INTERNAL REVENUE,

*Respondent.*

---

**REPLY BRIEF IN BEHALF OF THE STUART  
COMPANY, PETITIONER.**

---

**Introduction.**

The ultimate issue in this case is one of allocation. The Tax Court, having found upon substantial evidence and in accordance with the terms of the settlement agreement that a portion of the consideration was for cancellation of a contract and a portion was for purchase of a trade-mark, was required to allocate the consideration upon the basis of relative values. (*Cleveland Allerton Hotel, Inc., v. Commissioner*, 166 F. 2d 805.)

The Commissioner ignores this ultimate issue in connection with his appeal, as he ignored it in the Court below. The evidence he produced below, and his argument in this Court, are directed to the point that there should be no allocation. The Tax Court decided that issue against the Commissioner, and its decision that there should be an allocation is supported by overwhelming evi-

dence. On the basic issue of how much should be allocated to cancellation of the contract and how much should be allocated to the trade-mark, the Commissioner produced no evidence; and the Tax Court was bound to find upon the basis of the uncontradicted evidence presented by the taxpayer that no more than \$20,000.00 was paid for the purchase of the trade-mark and that the balance was paid for cancellation of the agreement. The Tax Court followed the principle of allocation when it found, upon the record including the testimony of Mr. Hanisch, that the stock of The Stuart Company had no value and hence no part of the consideration was allocable to the shares re-transferred by Mr. Lewis [R. 59]. But it committed reversible error in allocating any more than \$20,000.00 to the purchase of the trade-mark, contrary to the uncontradicted evidence of record.

## I.

### **In Re: The Commissioner's Appeal.**

The gist of the Commissioner's argument is that The Stuart Company paid nothing to cancel the onerous contract of May 5, 1941, and the entire amount of \$197,700.00 was paid to purchase the trade-mark "The Stuart Formula." But the Tax Court rejected that argument [R. 57-58]:

"The evidence discloses that the petitioner desired to abrogate the contract under which it was bound to buy all the vitamin products which it distributed from Vita-Food because it could obtain similar vitamin concentrates at substantially lower prices from other manufacturers. It therefore entered into negotiations with Vita-Food to effect a settlement of the contract. These negotiations were finally successful \* \* \*."

This finding or determination—that consideration *was* paid for cancellation of the contract—is supported by a wealth of evidence; and hence there is no basis for the Commissioner's appeal, *which is founded upon the sole ground that nothing was paid for cancellation of the contract*. The cases cited by the Commissioner himself, on page 10 of his brief, establish that a determination supported by substantial evidence will not be disturbed on appeal.

a. It is amply supported by the testimony of Mr. Arthur Hanisch, the principal stockholder and officer of The Stuart Company, who testified that the provisions which worked the greatest hardship were the ones that precluded him from purchasing products from other concerns, particularly after he had learned in October 1942 that he could obtain a better product from others at a greatly reduced cost [R. 142-144, 218-219]; that he then for the first time proceeded to find out what his rights were under the contract in all respects, including the ownership of the trade-mark, since that was part of the contract; that he believed litigation was in the offing, because The Vita-Food Corporation had issued a notice of partial termination and he assumed there would be a dispute in the matter; and that the trade-mark was not the point at issue, since his chief interest was to get out from under the onerous contract under which he could not operate [R. 238-241]. When asked if the trade-mark was of insignificant value, Mr. Hanisch testified as follows [R. 259]:

“That is completely true, because at the time we got into this discussion I wanted and Mr. Pelletier, one of our officers, wanted me to throw the trade-mark out the window, operate as The Stuart Com-

pany and call the vitamins Stuart's Vitamins, but I had no freedom under this contract to do it, because I was forced to buy from The Vita-Food Corporation. I could not buy from anybody else. I could have operated without the trade-mark if I could have gotten out from under the contract, but I could not operate with the trade-mark under this contract."

b. The finding or determination is likewise thoroughly supported by the testimony of Mr. Robert H. Dunlap, the attorney for and secretary of The Stuart Company who carried on the negotiations resulting in the settlement agreement. Mr. Dunlap testified that The Vita-Food Corporation insisted that The Stuart Company and Mr. Hanisch could not distribute any products unless they were purchased from Vita-Food [R. 321]; that The Stuart Company was losing money and was extremely anxious to cancel the contract, since the officers were convinced that no money could be made as long as the contract was in effect, "whether it was exclusive or non-exclusive" [R. 326-327]; that his entire effort in the negotiations was to cancel the contract so that the company would obtain freedom to go out and buy a better product at a lesser price; that incidentally and as a very minor matter, in order to completely divorce the parties, he suggested getting a quitclaim to the trade-mark [R. 334-337]; and he was most emphatic and direct in his testimony that he intended to engage in a very bitter law suit in order to destroy the obligation of The Stuart Company to buy only from Vita-Food, if the settlement negotiations had been unsuccessful [R. 359-360, 385-386].

c. The finding or determination is likewise supported by the contemporaneous document written by Mr. Dunlap. He had prepared a complaint for the purpose of



seeking a cancellation of the agreement, which he intended to file in its cause of action for declaratory relief as a cross-complaint in the pending injunction suit [R. 355, 367], and which contained the following allegations [Ex. 16, pp. 23-24]:

“That the defendants (Vita-Food Corporation) contend and allege:

“A. That the corporate defendant has a right to give a qualified notice of termination of the corporate plaintiff’s rights under Exhibit ‘A’ (the agreement dated May 5, 1941) \* \* \*

“D. That the corporate plaintiff (the Stuart Company) is obliged and obligated for a term expiring May 5, 1951, to purchase all of its merchandise from the corporate defendant and from no other source.

“E. That at the expiration of said sixty-day period, Exhibit ‘A’ will continue in force and effect as a non-exclusive sales and distribution agreement.”

d. The finding or determination is likewise supported by the written notice of termination sent by The Vita-Food Corporation to The Stuart Company dated October 8, 1942 [R. 49]:

“\* \* \* your exclusive right to sell under said contract is hereby terminated in accordance with paragraph 6 thereof. \* \* \* In all other respects, the contract remains in full force and effect.”

e. And finally, the finding or determination is supported by the settlement agreement itself. The language and terms of the agreement repel the suggestion that it was merely an agreement for the purchase and sale of a trade-mark. In fact, the total consideration of \$197,-

700.00 was required to be paid by The Stuart Company whether it used the trade-mark or not; and if it did not use the trade-mark, ownership was to vest in Vita-Food Corporation, notwithstanding which the full sum of \$197,700.00 was required to be paid by The Stuart Company. The provisions of the contract are absolutely irreconcilable with the Commissioner's contention that the entire consideration was paid for purchase of the trade-mark.

The only evidence to the contrary is the testimony of Mr. Oscar Wiseman, the vice-president of and attorney for The Vita-Food Corporation. He testified that all the consideration was paid for the purchase of the trade-mark; that none of it was paid for cancellation of the contract; that The Vita-Food Corporation was willing to cancel the contract without the payment of any money by The Stuart Company; and that he had so advised Mr. Hanisch and Mr. Dunlap. [R. 443-444, 448-449.]

Mr. Wiseman's testimony was flatly contradicted by both Mr. Hanisch and Mr. Dunlap. Mr. Hanisch testified that he had no such discussion with Mr. Wiseman [R. 240] and that he had never made an offer to Mr. Wiseman to purchase the trade-mark [R. 633]. And Mr. Dunlap was recalled to the stand and asked whether he had heard Mr. Wiseman's testimony to the effect that the latter had offered to cancel the contract without a monetary consideration, and Mr. Dunlap testified as follows [R. 634]:

"Q. Did he ever offer that to you? A. No, sir, he did not.

Q. Did he ever make that suggestion? A. No, sir, he did not."

In addition, Mr. Wiseman's testimony contained its own contradictions in this and in other respects, as will be shown more in detail in the second part of this brief. Suffice it to say here that Mr. Wiseman's testimony clearly indicates that he knew what he was doing in taking the intermediate step. On page 462 he stated that he had told Mr. Dunlap—

“\* \* \* that we had used an intermediary step, because we didn't want to use any harsher methods than absolutely necessary \* \* \*. The contract fixed certain prices, how the orders were to be placed, and other things. *We felt that pattern could be continued if they wanted to go on a non-exclusive basis.* We did not want to restrict them as to other operations they might have. They could sell anything they wanted to, provided they didn't use our labels or our trade-mark.” (Emphasis added.) And on page 463 he stated:

“\* \* \* It was our intention to cancel it entirely, except, as a preliminary step, we took a milder position.\* \* \*”

Mr. Lewis, the principal stockholder and officer of The Vita-Food Corporation, who testified in behalf of the Commissioner as to why Mr. Wiseman advised the intermediary step, stated as follows [R. 589]:

“A. Mr. Wiseman advised us that to invoke the final termination clause would not have exhausted all of his efforts and dictates and he felt that we should lean over backwards and give them an opportunity to do what there was, because *he felt that during the time they were not exclusive sales representatives and something might come up that might cure the entire matter.*” (Emphasis added.)

The Stuart Company would cease to be the exclusive sales representatives only upon the lapse of the 60 days, or on December 7. So, Mr. Wiseman plainly anticipated that The Stuart Company would continue to be bound by the contract, not as exclusive sales representatives, after that period, and that then something might develop which would cure the matter. Moreover, it should be emphasized that Mr. Wiseman admitted that he intended the contract to mean what it said. [R. 572.]

The Commissioner (p. 13) calls attention to the fact that the injunction suit by The Vita-Food Corporation simply prayed that The Stuart Company be enjoined from selling its products under the trade-mark. But, as Mr. Dunlap explained [R. 354], under the law of California the scope of a Court's decree in an equity proceeding is not limited by the prayer. See *Standard Brands of California v. Bryce, et al.*, 1 Cal. 2d 718, 721; *Zellerbach v. A. Lenberg, et al.*, 99 Cal. 2d 57, 68; *Morgan v. Veatch*, 59 Cal. App. 2d at 692; and *Weber v. Supreme Court*, 26 Cal. 2d at 148. It will be observed that page 5 of the complaint [Ex. 15] quotes paragraph 7 of the agreement to the effect that The Stuart Company shall handle no other products than those manufactured or produced by The Vita-Food Corporation.

The Commissioner's brief (pp. 8 and 14) asserts, without citing any authority, that the contract would not have been enforceable against The Stuart Company after its exclusive license had terminated. The answer to this contention is that Mr. Hanisch believed he was bound by the contract or, at the very best, that bitter litigation would ensue in an attempt to cancel the contract. The important point here is that the taxpayer was willing to pay consideration to cancel the contract by settlement,

rather than go through the expense and adversity of a bitterly contested law suit having for its purpose the cancellation of the contract, as, indeed, the Tax Court found and determined.

The point we make here is that it was the function of the Tax Court to determine from all the evidence whether consideration was paid for cancellation of the contract. It made that determination; and, in the light of the overwhelming weight of credible evidence outlined above, it refused to believe Mr. Wiseman's testimony that nothing was paid for such cancellation. Since that determination is supported by adequate, substantial and convincing evidence, it is binding upon this Court. It follows that the Commissioner's appeal is groundless and must be dismissed.

## II.

### **In Re: The Stuart Company's Appeal.**

Having properly concluded that consideration was paid to cancel the onerous contract of May 5, 1941, the remaining problem before the Tax Court was that of allocating the total consideration of \$197,700.00 as between the portion paid to cancel the contract and the portion paid for whatever interest The Vita-Food Corporation had in the trade-mark "The Stuart Formula." Upon settled principles of law, cited in our opening brief at pages 25 and 26, that apportionment must be based upon relative values: what was the value to The Stuart Company of being relieved of the burdens of the contract, under which it was required to pay exorbitant prices for its products, in comparison with the value of the trade-mark at that time?

The Tax Court determined that only \$75,000.00 was paid for cancellation of the contract and that the balance



of \$122,700.00 was paid for the purchase of the trade-mark.

It is this determination which the taxpayer maintains was absolutely and completely without support in the evidence.

a. It certainly is not supported by the testimony of Mr. Hanisch, but is directly contrary to such testimony. The gist of his testimony, summarized above, is that he was dismayed at being bound by a contract still having  $8\frac{1}{2}$  years to run, under which he was required to buy products only from Vita-Food at a cost at least 25 cents per bottle higher than he learned he could obtain a better product for elsewhere; that he considered the trade-mark to be in ill-repute and of little value and actually calculated what it would cost to adopt a new trade-mark (at not to exceed \$20,000.00 [R. 179-180]); that the provisions in the settlement agreement regarding the trade-mark were merely incidental to the primary object of obtaining freedom from the contract; and that the consideration agreed to be paid by The Stuart Company, except what it would have cost to adopt a new mark, was paid for cancellation of the contract.

b. It certainly is not supported by, but is contrary to, the testimony of Mr. Dunlap, as is indicated by the foregoing summary of his testimony and many other portions of his testimony which could be quoted.

c. It certainly is not supported by, but is directly contrary to, the testimony of the two disinterested expert

witnesses. Mr. Donald Royce, president of William Staats Company, testified that the trade-mark in his opinion was without value [R. 408-409]. Mr. George Miller, president of Strong Cobb and Company, Inc., a large private formula manufacturer, testified that a trade-mark is relatively unimportant in the field of ethical distribution of products through the recommendations of physicians, which was the type of business conducted by The Stuart Company [R. 297-300].

d. It finds no support in the testimony of Mr. Wiseman. We have shown above that the Tax Court refused to believe Mr. Wiseman's testimony that nothing was paid for cancellation of the agreement and everything was paid for the trade-mark. His testimony certainly does not support the finding that \$122,700.00 was paid for the trade-mark—simply because he did not so testify. With Mr. Wiseman it was a matter of all or nothing—black or white; and his testimony was either true or it was not true. The Tax Court refused to believe it on the basic issue, as discussed hereinabove; and having repudiated it on that issue, his testimony was utterly irrelevant on the questions of apportionment and relative values.

There were very good reasons why the Tax Court refused to believe Mr. Wiseman. His testimony contains so many self-contradictions that it was worthy of no credence. We have already pointed out that Mr. Wiseman testified on one hand that he would have agreed to a gra-

tuitous cancellation of the contract; but, on the other hand the record discloses that it was the same Mr. Wiseman who wrote and signed the notice of Vita-Food dated October 8, 1942, stating specifically that except for its exclusive features the contract was to remain in full force and effect; it was the same Mr. Wiseman who, in his complaint for an injunction against The Stuart Company, copied as a part of the complaint paragraph 7 of the original contract to the effect that The Stuart Company "shall handle no other products than those manufactured or produced" by Vita-Food [see page 5 of Ex. 15]; and it was the same Mr. Wiseman whose testimony shows that he intended the contract to go on after the exclusive license was terminated, as we have shown above.

The settlement agreement [p. 3 of Ex. 12] is very explicit that in the event of the abandonment of the trade-mark it shall vest in and be the property of Vita-Food. Mr. Wiseman testified that this provision was inserted at his insistence.

Now, it must be borne in mind that Mr. Hanisch and Mr. Dunlap had been considering the adoption of a new mark. They had discussed the matter—and, more important, they had discussed it in the presence of Mr. Wiseman. Mr. Wiseman admitted that there had been some discussions by The Stuart Company about abandoning the trade-mark "before that was inserted." [R. 511.] And of course it is obvious that such possibility was the reason why Mr. Wiseman insisted on the provision being inserted in the settlement agreement.

The crucial fact is this: The Stuart Company was still obligated to pay the full \$197,700.00, regardless of whether it used or abandoned the trade-mark.

How utterly unrealistic Mr. Wiseman's testimony was! He would ask the Court to believe that the settlement agreement was in reality nothing but a purchase and sale of the trade-mark for \$197,700.00, while at the same time admitting that the so-called vendee was talking about abandoning the use of the mark—in which event the mark would revert to the vendor without altering in any way the obligation to pay the full purchase price. Such testimony simply cannot be believed—and the Tax Court properly refused to believe it. When confronted with this hiatus, Mr. Wiseman's uncertainty and vacillation added to his lack of credibility. At first he said he "doubted" that Vita-Food could retake the name and also collect the money due under the contract; then he said he "would have to think that over"; then he said that while the promise to pay was unconditional, the contract did not say the remedies were cumulative; and he ended by saying, "I believe you asked for my opinion." [R. 507-508.]

All we ask this Honorable Court to do is read the settlement agreement. This was not a purchase and sale agreement. Payments unconditionally due were not tied in whatever with use or abandonment of the trade-mark. And to assert that abandonment of the mark by The Stuart Company would have eliminated its obligation to pay the whole sums set forth therein is nothing but absurd.

Another factor, equally important, illustrates how unrealistic Mr. Wiseman's testimony was. It was Mr. Wiseman who insisted upon the provisions in the settlement agreement binding not only The Stuart Company but Mr. Hanisch as well—which required Mr. Hanisch to retain his stock control and management of The Stuart Company. Why? Because, according to Mr. Wiseman, if Mr. Hanisch were not thus bound by the agreement, “it wasn't worth two cents”; the agreement by The Stuart Company to pay nearly \$200,000.00 “would have been an entirely worthless promise.” [R. 512.]

Even a witness called by the taxpayer itself could not have given better evidence than this admission by Mr. Wiseman that the trade-mark itself was of inconsequential value. A trade-mark is a symbol of good will; and good will or a trade-mark has value as an independent, intangible asset only if it has the capacity by itself to produce earnings. See page 30 of our opening brief. Hence, when Mr. Wiseman insisted that a promise by The Stuart Company, even as full owner of the trade-mark, would be worthless if dissociated from Mr. Hanisch, he inadvertently destroyed the whole basis for his contention that the trade-mark was the important thing. If the promise of The Stuart Company, with sole ownership of the trade-mark, would have been worthless, as Mr. Wiseman insisted, *a fortiori* the trade-mark itself would be worthless.

Furthermore, when he and Mr. Lewis testified that they would not sell the trade-mark for less than \$200,-



000.00, \$300,000.00 or \$350,000.00, they obviously were not testifying that the trade-mark had any such value (as the Commissioner seeks to infer in the footnote on page 11 of his brief).

It is fundamental that taxes must be governed by the real nature and substance of a transaction. A party cannot alter the tax consequences of a transaction merely by calling it a name, if that name does not describe the substance and reality of the transaction. Mr. Wiseman cannot concede in effect that the trademark was without value and then assert that nevertheless nearly \$200,000.00 was paid for it, simply because the recipient may want to treat the money as capital gain. That, we submit, is exactly what Mr. Wiseman attempted to do.

We respectfully believe that this Court cannot escape the conclusion that there was absolutely no evidence to support the Tax Court's determination that The Stuart Company paid \$122,700.00 for the purchase of the trade-mark. The evidence required a finding that \$20,000.00 was the outside amount that was paid for the trade-mark and the balance was paid for cancellation of the contract. We respectfully call the Court's attention to pages 17 to 25 of our opening brief, for a consideration of the very valuable economic benefits The Stuart Company expected to and did derive solely from the cancellation of the agreement and for an analysis of the terms of the settlement agreement. In reply to the Commissioner's second point, we respectfully refer the Court to pages 43-48 of our opening brief.

### Conclusion.

In view of the foregoing we respectfully submit that the Commissioner's petition should be dismissed and that the Tax Court's decision should be reversed with instructions to find that all but \$20,000.00 of the sums paid to The Vita-Food Corporation were paid for cancellation of the agreement and hence were deductible by the petitioner.

Dated September 13, 1951.

Respectfully submitted,

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No. 12849

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United States  
Court of Appeals  
for the Ninth Circuit.

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PATTERSON-BALLAGH CORPORATION, a  
Corporation, and BYRON JACKSON CO., a  
Corporation,

Appellants,

vs.

PERRY M. MOSS and PHOEBE E. MOSS,

Appellees.

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Transcript of Record  
In Three Volumes  
Volume I  
(Pages 1 to 278)

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Appeal from the United States District Court for the  
Southern District of California,  
Central Division.

FILED

JAN - 1 1952

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No. 12849

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United States  
Court of Appeals  
for the Ninth Circuit.

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PATTERSON-BALLAGH CORPORATION, a  
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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in italic; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in italic the two words between which the omission seems to occur.]

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In the United States District Court, Southern  
District of California, Central Division

Civil Action No. 5572-W

PHOEBE E. MOSS,

Plaintiff,

PERRY MOSS,

Nominal Plaintiff,

vs.

PATTERSON - BALLAGH CORPORATION, a  
California Corporation, and BYRON JACK-  
SON COMPANY, a Delaware Corporation,

Defendants.

SUBSTITUTED, AMENDED AND  
SUPPLEMENTAL COMPLAINT

(Last Before Trial)

Now comes the above-named Perry M. Moss as a nominal plaintiff and Phoebe E. Moss, plaintiff, and, leave of course having heretofore been granted on pre-trial hearing on February 3, 1948, file their substituted, amended and supplemental complaint, alleging:

I.

That the jurisdiction of this court of the subject matter of this complaint depends upon the fact that the cause of action hereinafter set forth arises under the patent laws of the United States, and particularly as set forth in Title 28, § 41, subdivision (7) of the United States Code, being a suit in equity under said patent laws.

## II.

That plaintiff, Phoebe E. Moss, is a citizen of the United States, residing in the city of Long Beach, county of Los Angeles and state of California.

## III.

That nominal plaintiff, Perry M. Moss, is a citizen of the United States, residing in the city of Long Beach, county of Los Angeles and state of California.

## IV.

That defendant Patterson-Ballagh Corporation was at the institution of this suit, on the 18th day of July, 1946, a corporation organized and existing under the laws of the state of California, and having its principal place of business in the city of Los Angeles, county of Los Angeles and state of California.

## V.

That defendant Byron Jackson Company is and has been all of the times alleged in this complaint a corporation organized and existing under and by virtue of the laws of the state of Delaware, with its principal place of business in the state of Delaware, and doing business in the city of Los Angeles, county of Los Angeles and state of California. [24\*]

## VI.

That on November 27, 1946, the directors of said defendant, Patterson-Ballagh Corporation, certified under oath that said last-named defendant corpora-

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\*Page numbering appearing at foot of page of original Certified Transcript of Record.

tion "has been completely wound up, known assets distributed tax or penalty paid \* \* \* and its other known debts and liabilities actually paid or adequately provided for, and that said corporation is dissolved." Said last-mentioned dissolution became effective December 3, 1946. And plaintiff alleges that defendant Byron Jackson Company agreed, as the adequate provision above recited, to pay said liabilities, including such sum as may be found due to plaintiff by reason of the infringement hereinafter charged.

#### VII.

That on the 20th day of February, 1940, there was granted to Perry M. Moss, the original plaintiff in this action, patent No. 2,190,880, for Draw Works Line Controller, of which plaintiff here makes proffert, and since said issuance and up to the time of the assignment referred to in the immediately following paragraph of this complaint, continued to be the sole owner of said Letters Patent, which Letters Patent will be produced on the trial of this action.

#### VIII.

That on the 16th day of January, 1948, the said Perry M. Moss, mentioned in the immediately preceding paragraph hereof, assigned to plaintiff herein, Phoebe E. Moss, his wife, his entire right, title and interest in and to said Letters Patent No. 2, 190,880 by an instrument in writing, executed, acknowledged and delivered on said 16th day of January, 1948, and including in said last-mentioned instrument an assignment to the said Phoebe E.

Moss of the right to recover for past infringement of said Letters Patent, all which [25] will appear from the original assignment to be produced in court. That on the 19th day of January, 1948, a duplicate original of said assignment was forwarded to the United States Patent Office with the proper fee for recording and directions for recording in the Patent Office.

### IX.

That on the 4th day of February, 1948, said Perry M. Moss, nominal plaintiff, also assigned to plaintiff herein, Phoebe E. Moss, his wife, as her sole and separate property, his entire right, title and interest in and to said Letters Patent No. 2,190,880 by an instrument in writing, executed, acknowledged and delivered on the 4th day of February, 1948, and including in said last-mentioned instrument an assignment to the said Phoebe E. Moss, as her sole and separate property, of the right to recover for past infringement of said Letters Patent, all of which will appear from the original assignment to be produced in court. That on the 5th day of February, 1948, a duplicate original of said assignment was forwarded to the United States Patent Office with the proper fee for recording and directions for recording in the Patent Office.

### X.

That after the issuance of said patent No. 2,190,880, defendant Patterson-Ballagh Corporation for a long time prior to the institution of this suit, and since such institution up to its said date of dissolu-



tion, and defendant Byron Jackson Company, a corporation, since said dissolution of Patterson-Bal-lagh Corporation and up to the present time, in this division and district and elsewhere in the United States and its possessions, have been di-rectly and contributorily wilfully infringing said Letters Patent No. 2,190,880 granted to said Perry M. Moss on the 20th day [26] of February, 1940, by making, selling and using, and instructing and procuring others to sell and use, Draw Works Line Controls embodying patented invention described and claimed in said last-mentioned letters patent, and particularly, as plaintiff is advised and believes, claims 2 and 7 of said Letters Patent, and said defendant Byron Jackson Company will continue so to do unless enjoined by this court.

## XI.

The said grantee of said Letters Patent herein-before referred to, Perry M. Moss, has placed the required statutory notice, i.e., "Patent No. 2,190,-880" on all draw works line controllers manufac-tured and sold by him under said Letters Patent, and has also given written notice to defendants of their said infringement, and since the assignments above described to present plaintiff, Phoebe E. Moss, said last-named plaintiff has not manufac-tured, but has sold one, of said draw works line controllers.

## XII.

That patentee's rights under said Letters Patent and those of his said assignee since said assignment

have been respected, so far as plaintiff is informed, and no manufacturer except defendants in this case has or have infringed.

Wherefore, plaintiff demands a final injunction against further infringement, direct and contributory, by defendant Byron Jackson Company, its officers, agents, employees, associates and confederates, and by those controlled by said defendant, and accounting for profits and damages, an assessment of costs against said defendants and each of them, an allowance of attorneys' fees [27] under the law, and also such other, further or different relief which, to the court, shall seem meet.

PHOEBE E. MOSS,  
Plaintiff.

PERRY M. MOSS,  
Nominal Plaintiff, by  
WESTALL and WESTALL,  
JOSEPH F. WESTALL, and  
EDWARD F. WESTALL,  
Their Attorneys,

By /s/ JOSEPH F. WESTALL.

Affidavit of Service by Mail attached.

[Endorsed]: Filed February 4, 1948. [28]

[Title of District Court and Cause.]

DEFENDANTS' ANSWER TO SUBSTITUTED,  
AMENDED AND SUPPLEMENTAL COM-  
PLAINT

Now come the defendants, Patterson-Ballagh Corporation and Byron Jackson Co., and in answer to the substituted, amended and supplemental complaint filed herein, admit, deny and allege as follows:

I.

In answer to Paragraph I, admit the allegations thereof.

II.

In answer to Paragraph II, admit the allegations thereof.

III.

In answer to Paragraph III, admit the allegations thereof. [30]

IV.

In answer to Paragraph IV, admit the allegations thereof.

V.

In answer to Paragraph V, admit the allegations thereof.

VI.

In answer to Paragraph VI, admit the allegations thereof.

VII.

In answer to Paragraph VII, admit the allegations thereof.

## VIII.

In answer to Paragraph VIII, defendants are without knowledge or information sufficient to form a belief as to the truth of the allegations and therefore deny the same.

## IX.

In answer to Paragraph IX, defendants are without knowledge or information sufficient to form a belief as to the truth of the allegations thereof and therefore deny the same.

## X.

In answer to Paragraph X, defendants deny each and every allegation thereof.

## XI.

In answer to Paragraph XI, defendants admit receipt of a written notice of the alleged infringement of the patent in suit by Patterson-Ballagh Corporation in 1940; defendants deny each and every of the remaining allegations thereof.

## XII.

In answer to Paragraph XII, deny each and every allegation thereof. [31]

As Additional and Affirmative Defenses, defendants allege:

## XIII.

That said Letters Patent 2,190,880, and particularly claims 2 and 7 thereof, which are the claims at issue herein, does not rise to the dignity of invention and constitutes no more than the exercise

of mere mechanical skill and nothing more than a practical oil man would know.

#### XIV.

Defendants aver that said Letters Patent 2,190,-880 is invalid for failure to comply with the requirements of the statute, § 4888 R. S. (U.S.C. Title 35, § 33), in that the application for said patent did not, and the said patent does not, contain a written description of the alleged invention or discovery and of the manner of making, constructing and using it in such full, clear, concise and exact terms as to enable any person skilled in the art or science to which it appertains, or with which it is most nearly connected, to make, construct and use the same; and in that the patentee failed particularly to point out and distinctly claim in said patent the part, improvement or combination which he claims as his invention or discovery.

#### XV.

Defendants aver that said Letters Patent 2,190,-880 was and is void and of no effect in law in that the alleged invention purported to be patented thereby does not constitute patentable knowledge or invention within the meaning of the patent laws in view of the prior state of the art and in view of what was common knowledge on the part of those skilled in the art, all prior to the time of the alleged invention of the said Letters Patent by the applicant therefor. [32]



## XVI.

That said Letters Patent 2,190,880 is invalid and void because the applicant, Perry M. Moss, was not the original and first inventor or discoverer of any material or substantial part of the thing patented and that every material or substantial part thereof and therein claimed as new was invented by other prior to the alleged invention thereof by said Perry M. Moss and particularly by John E. Reed, now residing in Santa Maria, California, and as described in Reed patent 2,238,398, issued April 15, 1941.

## XVII.

That said patent, and particularly claims 2 and 7 thereof, is invalid because John E. Reed, patentee of patent 2,238,398, while employed by the Union Oil Company at Belridge, California, as early as April, 1936, and prior to the date that said plaintiff made the alleged invention embodied in the patent in suit, conceived the invention thereof and manufactured and used and caused to be used a line spooler on Union Oil well Belridge No. 20 on or about April 15, 1936, embodying the construction as claimed in said Moss patent, and particularly claims 2 and 7 thereof.

## XVIII.

That Patterson-Ballagh Corporation, more than two years prior to the filing date of the application resulting in the issuance of the patent in suit and prior to the reduction to practice or manufacture and sale by the patentee Moss of any line spoolers

embodying the alleged invention of said patent, manufactured and sold line spoolers as shown in the photograph attached and made Exhibit 1 hereto and that one of said line spoolers was installed in a well near Avenal, California, in July, 1936, in the manner shown in said Exhibit 1; that Exhibit 1 is a photograph taken in July of 1936 of a Patterson-Ballagh line spooler installed in an oil well rig near Avenal, California, and [33] in the manner shown therein; that said Patterson-Ballagh line spoolers were sold to the public and were publicly used in the oil industry, including the line spooler in Exhibit 1, more than two years prior to the filing date of the Moss application resulting in the issuance of the patent in suit.

### XIX.

Defendants aver that the claims of said Letters Patent, and particularly claims 2 and 7 thereof, are ambiguous, and if such ambiguity can and shall be truly, correctly and lawfully resolved by references to the specification of said patent, the proceedings had in the Patent Office leading to the grant of said patent and to the art existing at and prior to the alleged invention of the subject matter of said claims by said Perry M. Moss, said claims, and each of them, will be legally susceptible only of such limited interpretation, scope and meaning that no act done or intended to be done by defendants can be justly and lawfully held to constitute infringement of said claims, or either of them.

## XX.

That the patent in suit, including the claims thereof and particularly claims 2 and 7 in issue herein, is invalid because said claims fail to comply with the provisions of § 33 of Title 35 of the United States Code in that said claims are indefinite and fail to distinctly point out and claim the alleged invention or discovery.

## XXI.

That the patent in suit, and the claims thereof and particularly claims 2 and 7 in issue herein, is invalid because said claims at the point of novelty therein do not specify structure but solely function and the result obtained or desired and therefore fail to comply with the provisions of § 33 of Title 35 U.S.C. [34]

## XXII.

That each and every of the elements covered by the claims of the patent in suit, and particularly claims 2 and 7 thereof, are shown in Reed patent 2,238,398 except the placing of an eye adjacent the top of the line spooler to which a suspension line may be attached; that the placing of an eye on the line spooler to attach a suspension line thereto is merely a matter of choice and the hanging or inclination of the line spooler because of the attachment of said suspending line is merely a matter of degree and that no unusual or unexpected result occurs from the placing of the eye adjacent the top of the line spooler which would cause said placing in conjunction with the use of said suspension line to rise to the dignity of invention.

## XXIII.

That the defendant, Patterson-Ballagh Corporation, manufactured and sold line spoolers to oil companies and particularly oil companies drilling oil wells and that said line spoolers were installed in the well rigs by the operators thereof without instructions to said operators or knowledge by Patterson-Ballagh Corporation as to whether the users of said line spoolers would install the same to cause said line spoolers to assume an angle of inclination coincident with the wire line threaded therethrough because of the manner in which said line spoolers were suspended by means of a suspension line attached to an eye thereon; that as manufactured and sold by Patterson-Ballagh Corporation said line spoolers did not embody the alleged invention of the claims in issue.

## XXIV.

That defendant, Byron Jackson Co., prior to its acquisition of the assets of Patterson-Ballagh Corporation never manufactured, sold and/or used line spoolers; that subsequent thereto said defendant corporation has never manufactured, sold or [35] used line spoolers wherein the suspension line was suspended from an eye at the top of the line spooler as shown in the drawings of the Moss patent in suit.

## XXV.

Defendants aver that plaintiffs are estopped to assert infringement by defendants, or either of them, or to maintain this action by reason of their long delay and laches in bringing this action and

with said plaintiffs having full knowledge of the alleged infringing activities of the defendant, Patterson-Ballagh Corporation; that said Patterson-Ballagh Corporation, relying upon the inactivity and delay of plaintiffs in bringing said action, continued said alleged infringing activities and changed its position to its detriment; that the defendant, Byron Jackson Co., is the successor in interest of said Patterson-Ballagh Corporation and prior to acquiring all of the assets of said corporation was the owner of a substantial amount of the issued stock of said defendant, Patterson-Ballagh Corporation; that the long delay and laches on the part of plaintiffs inures to the benefit of said defendant, Byron Jackson Co.

Wherefore, Defendants pray:

(a) That the patent in suit, and particularly claims 2 and 7 thereof, be held invalid and void and not infringed by defendants;

(b) That the complaint herein be dismissed with prejudice; with costs to defendants and that defendants have execution therefor;

(c) That the defendants have such other relief as to the court seems meet and just.

LYON & LYON,

/s/ R. E. CAUGHEY,

Attorneys for

Defendants. [36]





[Endorsed]: Filed January 12, 1948.



[Title of District Court and Cause.]

STIPULATION AS TO USE OF COPIES  
OF PATENTS

It Is Stipulated by and between the parties to the above-entitled action, through their respective attorneys, that uncertified printed copies of the specifications and drawings of Letters Patent of the United States and photostatic copies of the specifications and drawings of foreign Letters Patent, furnished by the United States Patent Office, shall be received in evidence with the same force and effect as duly certified or exemplified copies of said Letters Patent, subject only to their admissibility under the pleadings and relevancy and materiality to the issues, and subject to correction if any errors appear therein by the production of duly certified or exemplified copies; and that the recitals appearing on such copies in stating the dates on which the respective applications therefor were filed and the respective patents issued, shall be received as prima facie evidence of such facts so recited, subject to correction by reference to certified or exemplified copies, if any errors therein appear.

This stipulation may, but need not, be filed.

Dated at Los Angeles, California, this . . . . day of September, 1947.

WESTALL AND WESTALL,

By /s/ JOSEPH F. WESTALL,

Attorneys for Plaintiff.

/s/ R. E. CAUGHEY,

Attorney for Defendant.

[Endorsed]: Filed January 12, 1948.

[Title of District Court and Cause.]

## OPINION

This cause arises under the patent laws of the United States; the original complaint was filed by Perry M. Moss, as inventor and patentee, against Patterson-Ballagh Corporation, as the alleged infringer, for damages, etc., for infringement of Letters Patent No. 2,190,880. Since the filing of that complaint, Perry M. Moss has assigned to Phoebe E. Moss, his wife, all his right, title and interest in and to said Letters Patent, including the right to recover for past infringement of said patent, and Byron Jackson Co. has acquired the assets of Patterson-Ballagh Corporation and has assumed any liability of said Corporation. Appropriate amendments have been made to the pleadings.

The device described in the patent in suit, as well as other devices used or manufactured for [42] similar purposes, have been designated variously in the pleadings and evidence as "draw works line guide or controller," "wire line guide," "line controller," "wire line spooler" and "spooler"; for this memorandum we will call all of said devices "spoolers" unless another of said names is used.

The Moss Letters Patent were issued to Perry M. Moss on February 20, 1940, after application filed January 21, 1938.

The defendants have stated they are manufacturing their spoolers under a license agreement with

J. E. Reed, whose Letters Patent No. 2,238,398 were issued April 15, 1941, after application filed May 22, 1937.

At the trial of the case plaintiff Phoebe E. Moss appeared and testified on behalf of plaintiff; Perry M. Moss was unable, because of illness, to appear, and his testimony was presented by deposition; in addition to these witnesses, plaintiff called seven men of long experience in the operation of oil wells, none of whom appeared to have an interest in either the Reed or Moss patents.

Defendant offered the testimony of J. C. Ballagh, president of Patterson-Ballagh Corporation, and Vice-President of Byron-Jackson Co., a man of long experience in the manufacture and sale of oil well tools; Allen E. Hambly, expert witness, patent attorney for defendant Byron Jackson Co., J. E. Reed, licenser of Patterson-Ballagh Corporation for the use of the Reed Patent, and E. F. Prehoda; Reed and Prehoda were also men of long experience in the operation of oil wells.

The evidence shows that a standard oil well derrick is usually about 100 feet high, with the height on a slant of 122 feet, and with a 24 feet square base, inside measurement. A winding drum is placed on one side of the derrick floor, [43] and from this drum runs a wire line or cable, which unwinds upward to the derrick top where it passes over appropriate mechanism and downward to the hole. On the end of this line is attached the drilling or other heavy tool; as the tool is run in the cable unwinds from the drum and as the tool is pulled



up the cable winds on the drum. As the number of layers of cable helices increase or decrease on the drum the slant of the line will vary consequently; the rapid rotation of the winding drum will cause considerable vibration or wave motion to be produced in the cable, causing successive waves to travel up and down the span; these waves, due to the weight of the cable and the rapidity of the winding motion of the drum cause a lateral motion of the cable of considerable extent sufficient to result frequently in the cable "jumping" the drum, and to prevent its normal winding up neatly, or being spooled neatly upon the drum. The vibrations of the cable were designated by witnesses experienced in oil well drilling operations as "the whip of the line."

Early attempts were made to control these vibrations by the use of various devices, including that known as a "chain spooler."

Such device consisted of a piece of chain which had three to six links and with the wire line being threaded through a central link. A rope or wire line was tied to each end of the chain and each of said lines was threaded through a pulley from which the line hung down toward the floor of the derrick, with a counterweight attached to the end. This type of spooler was not successful. It eliminated some of the vibrations, but the chain caused the wire drilling line to wear out rapidly, and sparks flew from the contact of the wire with the chain, thus creating a danger to the workers on the rig. [44]

The Moss device and the alleged infringing device have operated successfully to check vibrations so that the line is spooled neatly, friction on the drilling line is reduced for longer wear, and the hazards of operation theretofore present removed.

A model to scale of the device made by plaintiffs under the Moss patent is Exhibit No. 4, and it was introduced into evidence installed in a model derrick, Exhibit No. 3.

A model to scale of one of the alleged infringing devices manufactured by defendants is Exhibit N.

The device shown in the Moss patent, the device shown in the Reed patent and the alleged infringing device are of similar construction except that the defendants' device and the Moss device show an eye at the top for attaching a hanging line, or suspension line, while the Reed patent shows an eye in the longitudinal center for a hanging line. The spooler originally manufactured by the defendants is similar to that shown in the Reed patent; there is no contention by plaintiffs that this device, with the eye for the hanging line in the middle, infringes their patent.

Counsel in their argument have stated, and the Court agrees, that the Reed application shows each and every element of the Moss patent, except that in the Moss patent the suspension, or hanging line of the spooler is attached to an eye at the top instead of, as in the Reed patent, an eye at the middle, or longitudinal center. Counsel are also agreed that the question before us is whether Moss' hanging line at the top constitutes invention.

The Moss patent describes a spooler which consists of a semi-cylindrical shell of metal in two sections, joined along one side, and openable. Inside the shell are a series of aligned, spaced, semi-cylindrical blocks of rubber having [45] an axial bore slightly larger than the drilling line or cable, and through which said line passes in winding or unwinding from the drum. Each bearing block is small compared to the length of the shell and is separately replaceable by opening the shell; from opposite sides of the shell are V or elbow arms (17) of metal whose divergent ends are rigidly attached to the top and bottom of the device on each side; the convergent ends of each of these arms is completed by a bar (18) of V-shape telescoped in the arm pipe ends, and secured. This bar provides the place of attachment through which are attached "harness bridles" or lines (15) and (16) on each side, which are rove over guide pulleys attached in the derrick; the ends of these lines hang over the outside of the derrick on each side, and equal weights are suspended from them.

An eye (17a) on the upper limb portion of each of the V arms (17) is shown, "for the attachment of suspending lines if such an arrangement is more adaptable to given cases of operation."

An eye (13) is affixed at the top of the shell "and to this eye is attached \* \* \* the suitable suspending element" the upper end of which is attached up in the derrick. This we call the "hanging line."

The patent further recites that the hanging line is secured in such a position in the rig that the

suspended shell will be in a position to "axially coincide" with the slanting line running from the top pulley to the drum, "that is so that the shell and the cable line have a common coaxial position tangent to the drum." The patent further recites:

"In other words, the draw-line shell is hung with its center of gravity on the axis of a given line and with [46] its axis normally, that is while free, substantially coincident with the axis of the introduced cable body. In such position the shell is balanced to tilt in a vertical plane on a transverse axis through its center of gravity and does not impose noticeable resistance on the line to hold its own obliquity."

The Reed patent describes a similar, openable shell lined with similar rubber blocks, similarly replaceable; the V arms (17) of the Moss patent have their equivalent in Y cables connected through radially extending ears two at the top (one on each side) (31), (32) and two at the bottom (33), (34). These cables at their convergent ends meet on each side by being attached to a ring (38) and from these rings, on each side, extend cables which similarly are disposed over pulleys to hang with an equal weight on each cable end, outside the derrick.

An eye or ear (28), "preferably located centrally with respect to the length of the housing member" receives one end of a supporting cable, "by which the spooler may be freely suspended from the derrick."

The Reed patent further recites:



“As will be hereinafter more fully described, it is necessary that the cable be permitted considerable latitude of motion in the direction of the longitudinal axis of the winding drum, so that the line of cable may be wound in a series of coils or a helix along the face of the drum and hence the guide or spooler constructed in accordance with my invention must be adapted to allow free movement of the cable in this direction. For this purpose I prefer to suspend my spooler or guide upon a relatively long length of cable, in the assumed example described herein the spooler being preferably suspended approximately 40 feet upon the winding drum [47] upon a cable which is approximately 40 feet in length \* \* \* By suspending the spooler at its approximate longitudinal center, it will be apparent that the spooler will hang freely with its longitudinal axis disposed in substantial alignment with the direction of the extent of the span of the cable and will not require a bend or offset of the cable as it passes through the spooler.”

The Moss patent contains 9 claims, but while the complaint charges infringement generally of the patent, counsel for plaintiffs have stated that there is no contention that infringement has been committed except as to claims 2 and 7 of the Moss patent.

Claim 2 reads:

“A draw works drum line controller body having an elongate, line receiving bore, a pair of opposite lateral control devices each including parts diverging toward the opposite ends of and connected to



said body to stabilize it against vibration on its minor axis in the plane of said devices, and a suspension means connected to said body at a point eccentric to the major axis and adjacent to one end of the body to support the body in normal position with the bore substantially parallel and contiguous to the line for reception thereof substantially without load of the body on the line when this is in a vertical plane transverse to the axis of the draw works drum."

Claim 7 reads:

"A draw line control apparatus including a shell structure, bearing means mounted in the shell, means for suspending the shell to receive [48] and pass the said draw line, bridle means extending toward opposite sides of the shell, and oppositely directed arms rigidly secured to the shell and to which the said bridle means are respectively connected; said suspending means including a device hitched to the shell at a point eccentric to its bore to cause the shell to hang at a desired angle from the vertical; and said shell consisting of elongate opposed sections, and band parts secured to said sections and having connected hinge eyes at one side of the shell and opposed lugs for fastening means at the opposite side of the shell."

The Reed patent contains 3 claims. Claim 2 of the Reed patent is as follows:

"In a guide for damping vibrations in a long span of traveling cable, a housing member including a pair of complementary semi-cylindrical elongated housing members, each having longitudinally ex-

tending flanges thereon, by which said members may be assembled together, lining means for said housing defining a restricted longitudinal bore through said guide, through which said cable may freely travel, means on at least one of said housing members near the longitudinal center thereof by which said guide may be suspended for substantially free lateral movement with respect to the direction of travel of said cable, and guy means associated with said housing for restricting the lateral movement of said guide."

The Reed file wrapper, showing the application for the patent and further proceedings in the Patent Office, was [49] introduced in evidence as Plaintiffs' Exhibit 11; the Moss file wrapper as Plaintiffs' Exhibit 12.

The file on the Moss patent shows that correspondence was had between the Patent Office and counsel for Moss over a period of about 2 years; that other patents and applications were considered, including the Bell, DePeel, Gill, Swan and Sawtelle patents; the file on the Reed patent also shows references to the patents last above named, as well as others.

It appears from the Reed file that after the allowance of the Moss patent, and on June 4, 1940, while the Reed application was still pending, the present counsel for the defendants, who represented Reed in his application, communicated with the Patent Office, wherein they asked that Reed be permitted to amend his application to include Claim 23, as follows:

“23. A draw works drum line controller body having an elongate line receiving bore, a pair of opposite lateral control devices each including parts diverging toward the opposite ends of and connected to said body to stabilize it against vibration on its minor axis in the plane of said devices, and a suspension means connected to said body at a point eccentric to the major axis to support the body in normal position with the bore substantially parallel and contiguous to the line for reception thereof substantially without load of the body on the line when this is in a vertical plane transverse to the axis of the draw works drum.”

The communication further stated that the amendment [50] had been copied from Moss patent, claim 2 thereof, except that the amendment omitted the recital that the suspension means is connected “adjacent to one end of the body.” It was requested by said counsel in said communication that an interference be declared between applicant’s claim 23 and Moss patent claim 2, and it was stated:

“On April 17, 1940, assignee of the present application received a notice charging infringement by the device of this application of the Moss patent, and an interference proceeding appears to be the proper mode of determining any issue of priority that may exist.”

The file also shows the reply of the Patent Office to the communication above mentioned, wherein the Patent Office stated in part:

“\* \* \* Therefore proposed claim 23 presented by applicant without the limitation ‘and adjacent to

one end of the body' in reference to the position of the 'suspension means' omits a relevant part of claim two of Moss and upon which the last 5 lines of function in claim 2 depends. Applicant's device as disclosed in this case has no suspension means adjacent to one end of his body but provides his suspension means at the center of his body. The function in the last 5 lines of claim 23 is not accomplished by applicant's device and is not disclosed in this case \* \* \*

“\* \* \* claim 2 of Moss is considered to be patentably different from proposed claim 23 \* \* \*” [51]

No appeal was taken from this decision of the Patent Office.

The evidence is that Perry M. Moss, in his work in the oil fields, for many years experienced trouble with the whipping of the line, and finally conceived the idea of his spooler; that on or about May 16, 1936, he related in detail his idea for a spooler, as later shown by his model in evidence, to A. M. Anderson, who was in charge of production for the Holly Oil Company, Moss' employer; that later he showed Anderson some sketches of his spooler; about November 22, 1936, Moss obtained some materials from a Mr. Terry who was employed at the same well as Moss, and from these materials Moss constructed a full-size spooler similar to that shown in the model; Mrs. Moss, his wife, assisted him in laying it out, but most of the work was done by Moss at home in his garage. About November 25, 1936, Moss showed the shell of the spooler to Mr.



Terry, and Terry later saw this spooler installed in a well.

The first test of the spooler after its completion was made in a well of the Holly Oil Company, under the supervision of A. M. Anderson, on April 5, 1937, at Huntington Beach, California. The Court takes judicial notice that Huntington Beach was, at that time, and had been for many years previous thereto, the center of great activity in the oil well drilling industry, and that said city is about 34 miles from Los Angeles, California.

Moss stated in his deposition that he had not secured a test of his spooler prior to April of 1937, because after he completed it in the latter part of November, 1936, he wanted to wait until he had an opportunity to test it in a well under the supervision of someone with whom he was acquainted, where he would get a fair deal. [52]

Another test of the Moss spooler was made in a well of the Republic Petroleum Company at El Segundo, California, in July or August of 1937.

Several witnesses employed on the respective wells where the tests were made gave clear evidence to the effect that the spooler was hung at the top in the manner shown by the model of the Moss spooler and derrick and that the spooler operated successfully.

The required statutory notice was placed upon the devices manufactured and sold by plaintiffs under said patent, and on April 17, 1940, plaintiffs gave notice to defendants of plaintiff's charge of infringement.



With reference to the history of Reed's invention, he testified that he had used chain spoolers as late as 1935, which chains he suspended in some instances by two ropes tied upward to a girt in the derrick, and in other instances by a loop about eight feet above the chain with a line from the top of the loop to a girt up in the derrick; that in 1935, he constructed a light wooden spooler, about 18 inches long, and this spooler was suspended from its top to the third girt above in the derrick, by two lines; another spooler of wood soaked in oil was similarly suspended. None of these spoolers were successful; the chain caused sparks, the wood wore out too quickly, and caused dust to fly; in March of 1936, he tried out a rubber spooler, but used no suspension means.

In April of 1936, he made an affidavit of invention, Exhibit D, witnessed by Mr. Prehoda, a man who worked with Reed; this affidavit showed a spooler with rubber inserts, side bridles, weights, but had no suspension line; a short slack line was attached to the derrick, the line being designated a safety line "to prevent the dropping of [53] the spooler should the counterweight ropes break." This invention was turned over to Reed's employer, Union Oil Company, and was released to Reed in January, 1937. The next spooler made by Reed, according to his testimony, was one of pipe split longitudinally, with rubber inserts, side bridles and counterweights, and a slack or hold down safety line which was attached to the rig below the spooler.

The pipe was bolted together with a bolt on each side at the top and a bolt at each side at the bottom. Reed testified a suspension line was made by tying a piece of rope from the bolts on each side at the top, then another rope from the center of this loop, which rope led upward and was attached to the third girt of the derrick above the spooler; this spooler was used on Belridge No. 20, a well of the Union Oil Company, in July of 1936. A sketch of this spooler, as testified to by Reed was drawn by him, and is Exhibit B.

Reed constructed another spooler in August of 1936; and drew a sketch, Exhibit C, to illustrate this device; he stated it was made of pipe, had rubber inserts, side bridles with counterweights, and bolts at the top and bottom on each side. As a suspension means, Reed testified he used a loop with each end fastened on the top bolts on each side of the spooler; a pulley was placed in the center of the loop, and from this pulley a single line went up to the third girt above the spooler, where another pulley was attached; from the second pulley, the line went down outside the rig, and on the end of the line was a counterweight; a slack or hold down line was attached to the bottom of the spooler.

Reed testified that this spooler last made took most of the whip out of the line.

Mr. Prehoda corroborated some of Mr. Reed's testimony concerning the use of the Reed spoolers, but was evidently confused between the "suspension" means and the [54] "safety line." While

Reed testified that the safety line was attached to the bottom of the spooler, Prehoda testified that the safety line was attached to one of the eyes at the top of the spooler and the other end of this line was attached 45 feet up in the derrick. Mr. Prehoda also testified concerning the first Patterson-Ballagh spooler he saw and stated that this spooler had a "safety line" from the center eye of the spooler and attached 21 feet above the spooler to the derrick. Both Reed and Prehoda testified that the Patterson-Ballagh spooler was suspended by two lines tied to the top eyes of the spooler to form a loop over the top, from the center of which loop a line went up to the third girt above the spooler.

Reed testified that he never heard of Mr. Moss until 1944, and never saw one of his spoolers until 1947. Reed further stated that he first installed one of the Patterson-Ballagh spoolers like the one pictured in Exhibit H, in a well in July of 1937; that he hung this spooler on a line attached to the center of a loop made by tying each end of a rope through the ears at the top on each side of the spooler; that the middle eye was used for attaching a safety line.

Reed further stated that he hung the Patterson-Ballagh spooler in this manner, in July of 1937, instead of from the middle eye, because that was the normal way to hang anything to have it hang perpendicularly; that his previous wooden spoolers had been hung in such a manner and that the chain spoolers were also tied from the top; that when he

hung the Patterson-Ballagh spooler from the top it functioned to take the whip out of the line.

Mr. Reed also stated that he had no conception of [55] hanging at the top when he made his affidavit of invention in April of 1936, but was interested in the wear of the rubber and in keeping the waves out of the line so as to spool it perfectly.

In January of 1937, Reed conferred with J. C. Ballagh, and learned that Ballagh had, in December of 1936, filed an application for a patent on a spooler; Ballagh became convinced that Reed was the true inventor, and the former withdrew his application, and on May 10, 1937, entered into an agreement for the use of Reed's device as shown in the patent application thereafter filed by Reed. On May 22, 1937, an application identical with that formerly filed by Ballagh was filed with Reed named as inventor, and on April 15, 1941, as heretofore stated, the Reed Letters Patent were issued; Reed has been, since the agreement mentioned, receiving a royalty on the rubber used in the manufacture of defendants' spoolers.

We have no testimony concerning any experiments by Mr. J. C. Ballagh which led to the filing in December of 1936, of his application for a patent on the spooler which was afterwards described in the Reed patent, but it appears that the first one of these spoolers was manufactured by Patterson-Ballagh Corporation in, or shortly prior to, June of 1936. A photograph of this spooler was identified as Exhibit H. This spooler, which



we will call the first type of Patterson-Ballagh spoolers, is in appearance similar to the drawing in the Reed patent the photograph shows the bridle lines attached, and a line attached to the middle eye, which line is coiled upon the floor near the spooler. Mr. Ballagh stated that three dozen, at the most, of these spoolers were manufactured, and less than two dozen sold. In July of 1936, one of these spoolers was shipped to Bakersfield, California, [56] to the Reserve Oil Company.

Mr. Ballagh testified at one portion of his testimony that the eye was put in the middle of the spooler for the purpose of attaching a safety line to keep the spooler from dropping down in the event the hanging lines would break; in another portion of his testimony, Mr. Ballagh stated that it was not necessary to the spooling of the line that there be any suspension line at all; at another portion of his testimony, Mr. Ballagh stated that the line shown attached to the middle eye of the early Patterson-Ballagh spooler was either a hanging line or a safety line, and that it was called a hanging line in the Patterson-Ballagh advertisements; that a hanging line and a safety line were the same thing.

Mr. Ballagh further related that in 1936 and 1937 he made trips through the oil fields, and received many suggestions from men in the field that the Paterson-Ballagh spooler would operate better if it were hung from the top by two lines, instead of from the middle; that in August, 1936, he visited a well of the Reserve Oil Company and observed the spooler which had been delivered to said Com-



pany, and noted that the spooler was suspended from two hanging lines at the top of the spooler, with no line attached to the middle eye; that he took a photograph of the spooler as it appeared in the rig, which photograph is Exhibit K.

An examination of Exhibit K discloses one of the first type of Patterson-Ballagh spoolers; side bridles are attached to the eyes or ears at the top and the bottom, and in the bridle ears at the top on each side two lines attached which lead upward toward the top of the derrick; the photograph does not show where the other ends of these lines are attached, neither does it show how far up into the derrick [57] these lines go; they do not appear to be taut; it is impossible to tell from the photograph whether the weight of the spooler is resting on these two lines, whether they are "hanging" or "safety" lines, or whether such weight is borne by the chains which are attached to the side bridles.

The evidence shows that sometime in July of 1937, Patterson-Ballagh begun to manufacture their second type of spooler; this spooler was of the same general construction as the first, except that it had, in addition to the middle eye, an eye at the top of the spooler, and another in between the top and middle eyes. Mr. Ballagh testified this change was made in response to suggestions received from men in the field as heretofore mentioned.

The first advertisement (Exhibit 25) published by Patterson-Ballagh showing their new spooler appeared in the October 21, 1937; the cut of the spooler was stipulated by counsel to have been

printed upside down in this advertisement, but viewed right side up it shows a taut line extending upward from the middle eye, and no lines attached to either of the two eyes above the middle eye; an advertisement dated December 30, 1937, Exhibit 26, shows the second type of spooler, with a line leading downward from the middle eye, marked "hold down safety line" and a line attached to the top eye marked "hanging line"; a third type of spooler is shown in an advertisement dated November 18, 1938, Exhibit 10-K, this spooler being of a shorter length, with metal arms instead of the bridle ropes, with an eye at the top with attached line labelled "hanging line," no line in the middle eye, and an eye at the bottom with a line marked "hold down safety line." Other advertisements show spoolers with the line in an eye at the top marked "hanging line" under dates of December 1, 1938, April 25, 1940, and such spoolers with [58] the "hanging line" attached to an eye at the top, similarly labelled, appear in Patterson-Ballagh catalogues for 1942, 1944, 1945 and 1947.

Directions for the installation of the spooler in the catalogues stress the importance of lining the hayfork pulleys which hold the bridle ropes so they are in line with the drilling line, and of lining the spooler up so that its center will be exactly lined up with the hayfork pulleys; the cut of the spooler in the 1947 catalogue shows a line attached to the top eye, while arrows leading from this eye and the eye next below it point to the designation "hanging loops at the center of gravity"; directions

for installation state that the hanging line must be high enough so that the frame hangs freely about the drilling line so that there will be no side pull when in operation. "This is important," the directions continue, "If necessary, add to the hanging line, as same must be vertical, if the linings are to show a long life." The catalogue above mentioned also contains a statement to the effect that the Patterson-Ballagh spooler has become standard equipment with most operators, and that "thousands are in service throughout the U. S. A."

The commercial success of this spooler is fully established by the evidence.

Mr. Ballagh further testified that since July of 1937 Patterson-Ballagh Corporation and its successor in interest, Byron Jackson Company, have continued to manufacture and sell spoolers similar to Exhibit N, their model in evidence, with an eye at the top; that during the past two years they have been recommending that the spoolers be hung from a line attached to the center of the loop, the loop being formed by a line having each end attached to the eyes or ears at each side of the top of the spooler, as this has [59] been found to be a better method than the hanging line from a single eye at the top.

Defendants in their answer have denied infringement, and have set forth in Paragraphs 13 to 25, inclusive, various affirmative defenses, which, with the exception of that of laches which counsel for defendants withdrew at the trial, have been epitomized by counsel in their brief:

“The defendants rely upon the following defenses which were raised by the answer filed to the supplemental complaint:

“1. That the patent in suit is invalid because nothing is involved other than the exercise of mere mechanical skill and that which was obvious to those skilled in the art.

“2. That the defendant, Patterson-Ballagh Corporation prior to the date of invention of Moss, manufactured and sold wire line controllers embodying the invention of the claims in issue which were publicly used prior to said date of invention in the United States.

“3. That John E. Reed, prior to the date of invention by Moss, conceived the invention of the claims in issue and reduced it to practice and publicly used the same.

“4. That the specifications of the patent and the claims do not comply with the requirements of § 33 of Title 35 of the United States Code.

“5. That the defendants have not infringed the claims in issue.

“6. That the claims in issue were so limited during the prosecution of the application for the [60] Moss patent that the plaintiffs cannot now contend that the claims have such a scope as to cover defendants' structure.”

We shall discuss, first, subdivision 4 which relates to the question of whether the specifications and claims comply with the requirements of Section 33 of Title 35, USCA. Under this category, defendants have criticized the use of the word “substan-



tially" in the Moss patent. It is interesting to note that when defendants' counsel requested of the Patent Office that the Reed application be amended to include claim 23, said claim included the word "substantially" used in the same manner as that of Moss claim 2, and we observe that neither counsel, at that time, nor the Patent Office, when it considered the Moss application, found any uncertainty presented by the use of such word.

It was said in *Bianchi v. Barili*, 108 F. 2d, a decision of the Court of Appeals of the 9th Circuit, from which we quote at page 799:

"In the first place, considerable latitude in semantics is permitted to an invention. As was said in *H. J. Wheeler Salvage Co. v. Rinelli & Guardino*, D. C. N. Y. 295 F. 717, 727, 'a patentee has the right to use such words as to him best describe his intention, and they will be so construed as to effectuate that result.'

"Second, the specification and the claims of the patent are not to be construed with legalistic rigidity. Here as elsewhere in the law, 'the letter killeth, but the spirit giveth life.' "

In *Application of Curley*, 158 F. 2d 300, it was stated at page 304 that the word substantially is a relative [61] term and "should be interpreted in accordance with the context of the claim in which it is used."

We feel that this defense merits little attention. A reading of the Moss patent leaves no doubt that, as required by the statute, the invention has been



described so as "to enable any person skilled in the art or science to which it appertains, or with which it is most nearly connected," to make and use the Moss spooler to obtain the results specified.

Contrasted with defendants' contention just discussed is their defense outlined under Subdivision 1, that the Moss invention involved nothing more than the exercise of mechanical skill, and was obvious to those skilled in the art. In support, defendants' counsel in their brief quote portions of the testimony of some of plaintiffs' witnesses, and from such portions counsel would convince us that any practical man in the field would know that a spooler should be "hung from the top." Our recollection of the entire testimony of these witnesses as they spoke from the stand, refreshed by a reading of their entire testimony in the transcript, does not lead us to ascribe to such testimony the meaning which counsel gives it. Their entire testimony leads us to the conclusion that they meant that any practical oil man, now, as of today, would know the spooler would hang better from the top; several of these witnesses testified that they had worked with Patterson-Ballagh spoolers of the early type, and that these spoolers were hung in the middle, and were off balance; we find no instance where any one of these witnesses testified that he, himself, hung one of the middle-eye spoolers from the top instead of the middle because such a method was obvious to him, as a practical man; and not one of them testified that he had ever seen a spooler [62] hung

from an eye or eyes at the top before he saw the Moss spooler.

As further evidence that the Moss method of hanging is obvious, counsel point to the photograph of the Patterson-Ballagh spooler taken in August, 1936, while installed in a well of the Reserve Oil Company near Bakersfield, California. As we have mentioned elsewhere, this photograph does not present conclusive evidence regarding the hanging of the spooler, and neither does the testimony of Mr. Ballagh concerning it, especially in view of the fact that he was evidently confused at the trial as to the difference between hanging lines and safety lines.

Again, on the point that the hanging of the spooler by an eye at the top was obvious to those skilled in the industry, reference is made to Mr. Ballagh's testimony that in 1936 and 1937 he received suggestions from men in the field that the spooler would hang better if it were hung at the top, and two lines used instead of one.

Keeping in mind that less than two dozen of those first middle-eye spoolers were sold during 1936 and 1937, and also noting that no one of the practical men of the field who made these suggestions was produced by the defendants to tell us whether they arrived at this method of hanging because it was obvious, or because they had heard of the Moss invention, disclosed in May of 1936 and tested and subsequently used in April of 1937, we are inclined to discount this hearsay testimony. First if any suggestions were made to Mr. Ballagh in 1936 that his middle-eye spooler was not satisfactory, and

should be hung from the top, with two lines, instead of the middle, or that another eye should be added, it would seem reasonable that he would have followed such suggestions in his own application filed in December of 1936, [63] and, secondly, if such suggestions were made to him prior to May 22, 1937, it is logical to suppose that he would have caused the Reed application, which was actually the Ballagh application with the name changed, and under which Ballagh had taken out a license, to be drawn so as to include this superior method of hanging instead of the middle eye method.

While it would have been simple to give the industry the benefit of these suggestions by changing the Patterson-Ballagh advertisements of the middle eye spooler to direct that the same be hung in the "obvious" method allegedly disclosed by the Reserve Oil Company photograph of August, 1936, we find a complete absence of any mention of this method in the advertising exhibits for the ten years subsequent to the date last cited.

Instead, we note that the Patterson-Ballagh advertisements continued to depict the middle eye with line attached until December of 1937. On that date their "really new wire line guide" with the top eye and the hanging line attached was shown. We note that the latter spooler was manufactured within a few months after, and within 34 miles of the place where the success of the Moss spooler had been demonstrated. All of which would indicate that if suggestions from men in the field led to the addition of the top eye to the Patterson-Ballagh

spooler, such suggestions originated not from those who found it obvious, but from those who had seen or heard of the Moss method of hanging at the top.

As offering additional support to the theory that Moss' top eye was obvious, mention is made of the testimony of Reed concerning the old chain spoolers and the wooden and rubber spoolers made by Reed. We do not attach importance to Reed's testimony as to the method of suspension of the old chain spoolers; such testimony was not supported by [64] the other practical man of the oil fields produced by the defendants, Mr. Prehoda; it was contradicted by several of plaintiff's witnesses. It was evident that Prehoda, in his testimony, also became confused between hanging lines and safety lines.

In our opinion the fact that the record of invention made by Reed in April of 1936 contained no mention of a hanging line of any sort, the fact that his application for a patent filed May 22, 1937, contained no mention of a hanging line or lines attached at the top of the spooler, either from one eye, or from ears or eyes at each side of the top, provide a clear refutation of his testimony that he hung his chain spoolers in 1935, his wooden spoolers in 1935, his rubber spoolers in 1936 from lines attached to the top of the spoolers because that was "the normal way to hang anything" to make it hang perpendicularly, instead of hanging it in the middle.

Four patents, the application for the earliest one having been filed in 1923, the Gill, Posey, Bell and Smith patents, were introduced in evidence by de-



fendants to show the state of the art before and at the time of the Moss application. The first three patents disclose no hanging lines, and the file wrappers of the Moss and Reed patents show that these patents were considered by the Patent Office with reference to both applications. The Smith patent was stressed as supporting the point that the Moss invention was obvious and constituted merely an exercise of mechanical skill. The latter patent, application for which was filed January 4, 1937, was not pleaded in anticipation of the Moss patent, and we see no similarity between the respective devices, except that the Smith device, as well as the Reed device, and the Moss device, each has a hanging line or lines. [65]

The patents introduced as above mentioned serve only to indicate the attempts of those skilled in the art to create a device which Moss succeeded in perfecting.

We are indebted to a recent decision of the Court of Appeals for the 9th Circuit, *R. W. Pointer v. Six Wheel Corporation*, decided September 27, 1949, reported at 177 F. 2d 153, for an illuminating discussion on the question of novelty as opposed to that which is produced by a mere exercise of mechanical skill. The opinion, written by District Judge Leon R. Yankwich, also contains citations of many cases which likewise assist us in considering the problem before us.

It is stated in the *R. W. Pointer* case just mentioned that whether there is invention is a question of fact, and that so is the determination of the



question whether there is presented some uncommon advance in the art or mere exercise of "the skill of the calling."

To guide the Court in deciding these questions of fact, the reported decisions have suggested various weights which may be laid upon the scales; not the least important of these is the heavy burden which is borne by one attacking the validity of the patent, especially one who has offered contest of that patent in the Patent Office. (*Radio Corp. v. Radio Laboratories*, 29 U. S. 1, 7-8; *Morgan v. Daniels*, 153 U. S. 120, 125.)

We have no testimony as to the number of years that the difficulties cured by the Moss patent had persisted to plague the oil drilling industry prior to the experience of the various witnesses, but the DePeel patent, referred to in the Moss file by the Patent Office as prior art, was granted in 1913. References in the Moss and Reed files, to prior patents, as well as the testimony at the trial shows [66] that much effort had been expended by others in the direction taken by Moss, and that such effort was not productive of satisfactory results. There is evidence that while the spoolers in use prior to the construction of the top eye spooler were of some value in partially stopping the whip of the line, the evidence also is clear that they did not succeed completely in this regard, and their use resulted in great wear on bearings and drilling lines; that the Moss and Patterson-Ballagh top eye spoolers were the first spoolers to stop the whip of the line, and to insure proper spooling with very little wear on

the line and bearings. The Patterson-Ballagh top eye spoolers are shown by the evidence to be in use in the majority of oil well drilling operations and to be practically standard equipment for such work.

That the Moss method of hanging might now appear obvious to those who have seen it, is to be expected; in fact, one of the practical men of the oil field testified that after he saw the Moss spooler, he couldn't understand why he, himself, didn't think of it before. It was stated at P. 931 in *Ray-O-Vac v. Goodyear Tire and Rubber Co.*, 45 F. S. 927 (affirmed, 136 F. 2d, 159):

"If a particular result has long been desired and frequently sought but never attained, ordinarily we may not attribute lack of invention to the device which first achieved the desired result, because it seems that the simplicity of the means is so marked that many believe they could readily have produced it if required. The *Barbed Wire Patent* (*Washburn & Moen Mfg. Co. v. Beat 'Em All Barbed-Wire Co.*, 143 U. S. 275, 284). Though the device be simple, and it may seem strange [67] that earlier makers should have failed to take the final step needed to convert their experiments into assured success, the simplicity will not preclude invention. *Carnegie Steel Co. v. Cambria Iron Co.*, 185 U. S. 403 (citing other cases). \* \* \*"

See also: *Diamond Rubber Co. v. Consolidated Tire Co.*, 220 U. S. 434.

Paraphrasing some of the language of Judge Learned Hand in *Safety Car Heating & Lighting Co. v. General Electric Co.*, 155 F. 2d, 937, 939, also

cited in the *R. W. Pointer* case, *supra*, we have considered “the circumstances which preceded, attended and succeeded the appearance of the invention,” “the length of time the art, though needing the invention, went without it,” “the number of those who sought to meet the need, and the period over which their efforts were spread” and the “extent to which it superseded what had gone before,” and find, as did the Patent Office after its careful consideration, that the Moss device shows invention. (See also: *Paramount Publix Corp. v. American Tri Ergon Corp.*, 294 U. S. 464, 474; *Schering Corp. v. Gilbert*, 153 F. 2d, 428, 432.)

Subdivision 2 of the synopsis of affirmative defenses mentions that Patterson-Ballagh corporation prior to the date of invention of Moss, manufactured and sold wire line controllers embodying the invention of the claims in issue, and that such devices were publicly used in the United States prior to said date of invention.

There is no contention that Patterson-Ballagh manufactured any spooler earlier than June, 1936, or, possibly, just prior to the date of the photograph, Exhibit H; this spooler, shown in the Reed patent, was the middle eye spooler and did not embody the hanging eye at the top shown by [68] the Moss claims in suit. But counsel for defendants insist that the 1936 spooler just mentioned, when hung from the two top bridle ears embodied the invention of the claims in suit, and that such use was shown by the testimony in connection with the Reserve Oil Company photograph, Exhibit K.

We have analyzed the testimony with reference to this exhibit in our discussion on invention, and the conclusions there reached make it unnecessary to accord further attention to this defense.

Under Subdivision 3 of their synopsis of defenses, counsel for defendants have referred to the allegation in their answer at Paragraph 17, which is to the effect that the Moss patent, particularly claims 2 and 7, is invalid because John E. Reed, prior to the date of Moss' invention, conceived the invention thereof and manufactured and caused to be used a line spooler on the Belridge No. 20 Union Oil Well, on or about April 15, 1936, which line spooler embodied the construction as claimed in said Moss patent, and particularly claims 2 and 7 thereof.

The earliest date which the evidence discloses Reed used a spooler on the Belridge No. 20 well was June or July, 1936; the testimony is that this spooler was not entirely successful in taking the whip out of the line, was used only until August, at which time Reed constructed his second type of spooler (with the hanging line going over a pulley, and a weight at the end of the line outside the derrick), which latter spooler was used on another well in August, 1936, and sometime later in the year, on a re-deepening job on Belridge 20.

Counsel for the defendants in their brief characterize the Reed record of invention of April 15, 1936, as a "conception" and the making of the spoolers used on the [69] Belridge No. 20 well in



June or July of 1936 and thereafter during 1936 as a reduction to practice of such conception.

In our discussion on the question of invention, we have given our appraisal of the testimony with regard to the hanging, by Reed, of his spoolers used on Belridge No. 20. As we have heretofore stated, no hanging line of any sort was shown in Reed's record of invention; and whatever the position of attachment of the hanging line or lines on Reed's spoolers above mentioned, such feature cannot be connected up as a reduction to practice of any conception evidenced by the record of invention, nor, for that matter, can the Reed application or patent as far as the hanging line thereof, be connected with said record of invention.

In connection with Subdivisions 2 and 3 of the synopsis, counsel for defendants assert that the earliest date of invention which Moss can claim is April 5, 1937, the date of actual reduction to practice, and that should he seek to carry his date of invention back to his date of conception on May 16, 1936, he would be barred because of a failure to exercise due diligence during that period.

The oft-cited case of Automatic Weighing Machine Co. v. Pneumatic Scale Corp., 166 F. 288, is quoted as authority on this point; counsel for plaintiffs, referring to "Interference Law and Practice by Rivise and Caesar (1940)," Volume 1, chapter XIII, page 537, maintain that the question of diligence is important only in the case of a party who was first to conceive the invention but who did not reduce it to practice until after his opponent had



done so. In *Hann v. Venetian Blind Corporation*, 111 F. 2d, 455, 459, the opinion of the Court of Appeals, 9th Circuit, quotes from the *Automatic Weighing Machine Co.* case, in connection with the statement: [70]

“We are not unmindful of the rule that where two parties have reduced an invention to practice, the one who first conceived and disclosed the invention and with reasonable diligence connected his conception with its reduction to practice is the ‘original and first inventor’ under the statutes, without regard to which of the two first completed the reduction to practice.”

We are inclined to agree with counsel for the plaintiffs that the question of diligence is not important here because no evidence has been introduced in this case to show any race between rival inventors, but since counsel for defendants have asked for a finding on this subject, we will consider the same.

Conception is defined in *Townsend v. Smith*, 36 F. 2d, 292, as being established “when the invention is made sufficiently plain to enable those skilled in the art to understand it.” (See also *Cooper v. Hubbell*, 53 F. 2d, 1072, 1077.)

Reduction to practice is defined in *Hann v. Venetian Blind Corporation*, 111 F. 2d, 455, 458, as being accomplished when a “machine is assembled, adjusted and used.”

Counsel seem to agree that the date of Moss’ conception was May 16, 1936, when he disclosed his invention to Anderson, and we so find. The evidence

is also clear that Moss completed the construction of his spooler in November, 1936, except that he had not fully decided at that time whether he would use rubber or wood for bearings; that between November of 1936 and April 5, 1937, he inserted rubber bearings, arranged for a test of his device, procured and took to the well of the Holly Oil Company in Huntington Beach, California, the ropes, pulleys and counterweights [71] used in operating his completed device.

As was said in *Powell v. Poupitch*, 167 F. 2d, 514, "The question of diligence is one which must be determined by consideration of the particular circumstances of each individual case." We are also of the opinion that the circumstances of the particular individual may be considered with reference to this question.

In Moss' case, he was a driller employed on the rig. He did not have the authority of Reed, drilling superintendent for the Union Oil Company, or Anderson, in charge of production for the Holly Oil Company. The drilling for oil is an industry wherein mistakes are costly, and it is not to be supposed that a test of a new device in connection with the drilling cable would be undertaken without the sanction of those in charge of such operations. Moss held no position entitling him to insist that his device be tested, and it was important that the test be undertaken by someone he could trust, who would give him a "fair deal." His first test was secured through the person to whom he had made

his first disclosure. Under all the circumstances, we find no lack of diligence in his conduct.

Directed to their defense set forth in Subdivision 5 of their synopsis of defenses, that of non-infringement, defendants introduced evidence "directed to the proposition that Patterson-Ballagh spoolers were not hung so that the angle of inclination allowed the line to pass freely through the spooler, as it would be normally hung." Mr. Hambley, patent attorney of defendants, computed the angles of inclination of the three sizes of defendants' spoolers. He stated that the angle of inclination of the Patterson-Ballagh spooler, when suspended from a line attached to the top eye and fastened thirty feet above the spooler in the [72] derrick was, for the four section spooler, 14 degrees off the vertical, or 10 degrees offset from the drilling line, the six section spooler, 9 degrees off the vertical, or 5 degrees offset from the drilling line, and the two section spooler, 30 degrees off the vertical or 26 degrees offset from the drilling line. Counsel for defendants argue that the degree of inclination from the drilling line as to each of these spoolers is too great to permit the drilling line to run freely through it, and maintained that the defendants do not infringe "because they do not so hang their spoolers so that there is no friction on the line."

It is further argued that Mr. Moss testified that his spooler has an angle of inclination two or three degrees offset from that of the drilling line, and that if the claims in suit are interpreted so that the words "a suspension means connected with said

body at a point eccentric to the major axis and adjacent to one end of the body to support the body in normal position with the bore substantially parallel and contiguous to the line for reception thereof" (emphasis supplied) mean that the spooler is suspended so as to hang at no greater angle of inclination than two or three degrees offset from the drilling line, then none of the spoolers manufactured by the defendants infringe.

It was further testified by Mr. Hambley that a Patterson-Ballagh spooler hung in the derrick by a hanging line attached to the top of a loop each end of which was fastened to the two top ears of the spooler had no angle of inclination, but was vertical, and thus, figuring the slant of the drilling line as 4 degrees, the spooler was offset only 4 degrees from the drilling line.

It was argued by counsel for defendants that if "substantially" as used in the Moss claims meant an offset [73] from the drilling line greater than the 2 or 3 degrees mentioned by Mr. Moss, then such a spooler would be covered by the method of hanging shown in the Smith patent and the Reserve Oil Company photograph, Exhibit K, and the claims would thus be invalid.

We have already commented upon the Smith patent and the Reserve Oil Company photograph in our discussion on validity.

There was also some argument between counsel for the parties as to the meaning of the words "normal position." Mr. Hambley interpreted "normal position" to mean the position the spooler



naturally assumes when freely suspended without any line passing through the bore or any restraining force acting on it other than gravity; counsel for defendants ascribed a similar meaning, counsel for plaintiffs stated that when hanging line was attached to the top eye, and the spooler tied up to such a girt as to make the bore substantially parallel with the line, a "normal position" as nearly as could be gotten would be achieved. We note that the Patent Office, in refusing the Reed amendment, stated that one of Moss' objects was to provide a spooler which in its "normal working position" forms a guide along the axis of the cable so that the cable may run quite free from bearing contact pressure. (Emphasis supplied.)

There are several reasons why we feel that Mr. Hambley's testimony is not pertinent to the issues before us. We are unable to reconcile the factors which Mr. Hambley used to obtain his angles of 5, 10 and 26 degrees with the statements of Mr. Moss as to the manner in which he obtained his angle of 2 or 3 degrees. Mr. Hambley assumed a 30 feet hanging line, and a drilling line with a slant of 4 degrees off the vertical. Mr. Moss testified that the hanging line would be 30 or 40 feet long depending upon the position of the drum, and reiterated several times his statement that the hanging line must be placed "high enough so it will hang as near as it will hang" to the inclination of the drilling line; also the evidence is not clear that Mr. Moss meant that the angle of 2 to 3 degrees was present when the spooler was hung from the hanging line with-



out the bridle ropes and pulleys, or was present when the spooler was in actual "working" position.

Even if we accept Mr. Hambley's computations as correct, we must label them as inconclusive; they were, to borrow a phrase from *Weiss v. R. Hoe & Co.*, 109 F. 2d 722, p. 726, in the nature of "ex parte tests" not made when the devices were in operation, nor in fact, in actual "working" position.

Mr. Hambley further testified (Tr. 465)" \* \* \* the normal angular tilt of the axis of the spooler is so [74] that, when you locate that eye with respect to the axis, and when you determine what length the spooler is going to be, at that instant you have determined what its normal suspended position will be and it doesn't matter one bit how high up you go \* \* \* you can't change the normal suspended position of that spooler by attaching it at a higher or lower point in the derrick. That is determined by the dimensions of the spooler when it is manufactured."

This testimony seems to be at variance with the emphasis placed by Patterson-Ballagh directions on hanging their spooler as shown in their catalogues, particularly their 1947 one:

"Fasten the hanging line to the exact center of one of the upper girts, (generally 30-40 feet above the third girt) high enough so that the frame hangs freely about the drilling line. Be sure there will be no side pull on the guide when put into operation. This is important. (Emphasis found.) If necessary, add to the hanging line, as same must be vertical if linings are to show a long life."

Also in contrast with the language of these directions, and with the claims in the Patterson-Ballagh advertisements of a "freely hanging guide" are the statements of counsel for defendants during the trial that the degree of inclination of each of the Patterson-Ballagh spoolers is too great to permit the drilling line to run freely through it, and that defendants "do not hang their spoolers so that there is no friction on the line." [75]

In *Eibel v. Paper Co.* 261 U. S. 46, the Supreme Court considered the effect of the use of the word "substantially," and in said case expounded many principles of patent law which are pertinent to the case at bar on the question of infringement and also upon validity. In the Eibel patent, the object of the invention was "to construct and arrange the machine whereby it may be run at a very much higher speed than heretofore to produce a more uniform sheet of paper which is strong, even and well formed," and the device was described as being an improvement on the Fourdrinier machine; invention, according to the specifications, consisted in causing the paper stock to travel by gravity in the direction of the movement of the making-wire and approximately as fast as the making-wire moved. "To accomplish this result in a simple manner," read the specifications, "the breast-roll end of the paper-making wire is maintained at a substantial elevation above the level, thereby providing a continuous downwardly moving paper-making wire \* \* \*"

Some of the claims in question used the words

“substantial elevation.” The Supreme Court in its opinion at page 58 referred to the fact that the prior art showed a three-inch elevation of the breast roll, and its sole purpose was drainage. On the question of invention, the Court commented that while some of the witnesses testified that they had used or seen used elevations of four, five or six inches, that written records showed no more than three inches. The Court remarked that “the amount of elevation rested in a memory running back more than ten or fifteen years, a memory stimulated by the subsequent high pitches of Eibel and the retrospect of the progress that now seems so easy and clear to everyone \* \* \*” Continuing, at page 60, it was stated: [76]

“\* \* \* The temptation to remember in such cases and the ease with which honest witnesses can convince themselves after many years of having had a conception at the basis of a valuable patent, are well known in this branch of the law, and have properly led to a rule that evidence to prove prior discovery must be clear and satisfactory \* \* \*”

Mention was also made in this decision, at page 65, of the question whether or not the patent was too vague in its terms because the extent of the factor of pitch was not defined except by the terms “substantial” and “high”; the Court noted that the figure accompanying the specification and illustrating the improvement indicated an angle of four per cent, or an elevation of 12 inches, and stated that the reference to the small elevations in prior

patents for drainage purposes only indicated that the patentee had in mind elevations substantial as compared with them in order to achieve his purpose of substantially increasing the speed of the stock; that it was difficult for him to be more definite due to the varying conditions of speed and stock existing in the operations of the Fourdrinier machines, and the necessary variation in the pitch to be used to accomplish the purpose of his invention.

The defendant used a Fourdrinier machine having the breast roll at an elevation of 15 inches above the level, and such machine caused the paper to move rapidly in the direction of the movement of the wire and at a speed approximately equal to the speed of the wire "substantially as described" in plaintiff's patent. The Court held that Eibel's patent was valid, and infringed. [77]

In *Robins v. Wettlaufer*, 81 F. 2d 882, the question was whether a screening machine with its drive shaft over 7 inches away from the center of gravity came within the claim which read in part (p. 884):

"A screening apparatus comprising a screen frame, a drive shaft substantially coincident with the center of gravity \* \* \*"

The drive shaft of the other device being considered was one-half inch away from the center of gravity. The Court, reading the specifications, commented that the primary conception of both parties was to construct a single actuating shaft screen which would be evenly balanced and free from destructive and noisy vibrations, which was



to be accomplished by a combination of features including the drive shaft, and that the location of the drive shaft must be considered in connection with the other elements of the invention. Deciding in favor of the first mentioned machine, the Court stated that the same had successfully operated to produce the new and useful results of the subject matter of the counts of the interference, and that it satisfied the same, and that the element in issue contributed to that result, holding, (p. 893) :

“If the actuating shaft be close enough to the center of gravity of the frame so that the objects of the invention are accomplished and its proposed new and useful results attained, then the shaft may be held to be ‘substantially coincident’ with the center of gravity.”

See also: *Valvona-Marchiony Co. v. Marchiony*, 207 F. 308; *Engineer Co. v. Hotel Astor, et al.*, 226 F. 779, 780; *Pittsburgh Iron & Steel Foundries v. Seaman-Sleeth Co.*, 236 F. 756; *Hazeltine Corporation, et al., v. A. H. Grebe & Co., [78] Inc.*, 21 F. 2d 643, 645, which are to the effect that the word “substantial” should be interpreted in the light of the results sought and accomplished.

It is admitted by defendants that all elements of their device are identical with those of the Moss patent except the eye at the top for the hanging line.

It is our opinion that there is also identity in that respect.

It is certain that the eye at the top of defendants’ device is placed so as to accomplish the objects of



the Moss patent, and to attain the proposed new and useful results claimed by the Moss patent; it is likewise certain that defendants' spooler hangs with its bore "substantially parallel and contiguous to the line for reception thereof" and it is also certain that the Patterson-Ballagh spooler operates "substantially without load of the body on the line when this is in a vertical plane transverse to the axis of the draw works drum."

Viewing the defendants' device and its results with the claims in suit and the results claimed by the patent, we are inclined to feel that the controversy over the word "substantial" in this case makes most appropos the language used by the Court in *Bianchi v. Barili*, 168 F. 2d 793, p. 801:

"\* \* \* infringement is a question of fact \* \* \* It is also a question of substance, and not of nomenclature. It is not to be settled by striving to ascertain the difference between tweedledum and tweedledee."

In *Union Paper Bag Machine Co. v. Murphy*, 97 U. S. 120, 125, it was stated: [79]

"\* \* \* the correct rule being that, in determining the question of infringement, the court or jury, as the case may be are not to judge about similarities or differences by the name of things, but are to look at the machines or their several devices or elements in the light of what they do, or what office or function they perform, and how they perform it, and to find that one thing is substantially the same as another, if it performs substantially the same function in substantially the same way to obtain the

same result, always bearing in mind that devices in a patented machine are different in the sense of the patent law when they perform different functions or in a different way, or produce a substantially different result." See also: *Soco-Lowell Shops v. Reynolds*, 141 F. 2d 587.

Under Subdivision 6 of their summary of defenses is defendants' contention that the claims in issue were so limited during the prosecution of the same before the Patent Office that they cannot now be said to cover defendants' structure. Under this heading it is argued that the Moss claims should have the limited interpretation that the spooler must coincide with the angle of inclination of the wire line with not more than 2 or 3 degrees deviation.

We find no merit in this contention.

It is our opinion that Claim 2 of the Moss patent is valid, and is infringed by the devices which have been, and are being manufactured by defendants.

With reference to Claim 7 of the Moss patent, we find that it is valid, and is infringed except as to the band parts. Counsel on either side have not devoted enough [80] attention in presenting evidence, argument or authorities on this feature to justify our discussing the same in detail. We think that plaintiffs are entitled to the benefit of the presumption of validity afforded by their patent, (*Morgan v. Daniels*, 153 U. S. 120, 123) which defendants have not overcome. On the other hand, plaintiffs have not sustained their burden to

prove that as to these parts, defendants have infringed. (*Price v. Kelly* 154 U. S. 669.)

Plaintiffs should have judgment for an injunction, accounting, damages, interest and attorney's fees.

We have not been furnished with sufficient points and authorities or discussion by counsel to enable us to decide at this time whether damages for wilful infringement should also be awarded, and suggest that counsel for plaintiffs prepare findings, etc., in the light of this opinion, leaving open the finding on the last mentioned subject, and submit the same in accordance with the rules of this Court, within 20 days from this date. In the meantime, counsel for the parties may file further briefs and written argument on the question of wilful infringement if they so desire, within ten days from date hereof. Also within ten days from date hereof counsel for plaintiffs should submit detailed statements of work done referable to the amount to be awarded as attorneys' fees.

Dated this 21st day of February, 1950.

/s/ JACOB WEINBERGER,

United States District Judge.

[Endorsed]: Filed February 21, 1950. [81]

[Title of District Court and Cause.]

## OBJECTIONS TO PROPOSED FINDINGS AND CONCLUSIONS

Now come the defendants in the above-entitled action and make the following objections to the findings of fact and conclusions of law proposed by the plaintiffs in the above-entitled action.

### Findings of Fact

#### I.

Defendants object to the proposed finding IX upon the ground that as written it is a conclusion of law and upon the further ground that any finding upon the question of infringement should identify which of the defendants' structures are found to embody the invention of claim 2 in issue. [93]

The record (383-386) shows that Patterson-Ballagh Corporation prior to the filing of the action herein manufactured and sold spoolers of varying lengths, i.e., 16 inches, 32 inches and 48 inches, with all of said spoolers having the same internal and external diameters. There is therefore before the court the three types of Patterson-Ballagh spoolers which are charged to infringe and any finding upon the question of infringement should be specific as to the particular types. Such a finding would be helpful to an appellate court if an appeal is taken from any judgment entered herein.

Furthermore, the record in the cited pages shows that Patterson-Ballagh Corporation did not install or use any of the types manufactured and sold by



it. The record is clear that the crews of the purchaser made the installations and that ordinarily counterweights and the hay fork pulleys were not supplied (R. 386). Therefore the finding, as worded, that the defendants had directly and contributorily infringed is not in accordance with the facts nor is that part of the finding correct or in accordance with the evidence which sets forth that the defendants used any line spoolers. We have heretofore filed a memorandum relative to the question of wilful infringement and objection is made to the inclusion of any such language in said finding.

Furthermore, the record shows (381-382) that subsequent to the filing of the action the manner of hanging spoolers had been changed by defendants so that two hanging lines are used instead of one. This particular construction was only commented upon briefly in Mr. Ballagh's testimony and there is in fact no substantial evidence before the court as to what this particular construction is or how it functions and particularly where the hanging line is attached or how long the same may be. Under rule 15(d) of the federal rules of civil procedure transactions or occurrences or events happening subsequently to the filing [94] of the complaint should be reached by a supplemental pleading; particularly if the construction charged to infringe is different from that charged to infringe when the complaint was filed. The defendants have had no opportunity to present any defense in connection with a construction wherein two hanging lines are used and, if plaintiffs con-



tend that such construction does infringe, the defendants should have an opportunity of interposing defenses thereto and being heard thereon. The deposition of Mr. Moss taken September 8, 1947, clearly shows that the Patterson-Ballagh structures charged to infringe were those having one hanging line at the top and that there was no question of infringement where two hanging lines were involved.

Proposed finding IX should therefore be restricted to the three types of Patterson-Ballagh spoolers charged to infringe as shown by the deposition of Mr. Moss and by the testimony in this court. If the plaintiffs' content the present type of hanging is an infringement, then it should be reached by a supplemental or other proper pleading and with the defendants being given the opportunity to meet said issue.

## II.

Objection is made to proposed finding X on the ground that there is no proof in the record as to when the plaintiffs placed the required statutory notice upon any spoolers sold by Perry M. Moss; nor is there any proof in the record that such required notice was placed thereon prior to the written notice of infringement addressed to defendant Patterson-Ballagh Corporation; this question can properly be considered upon any accounting and if the statutory notice is effective prior to written notice this can be established. However such finding is not in accordance with the evidence now before the court. [95]

## III.

There is no evidence to support proposed finding XI. This is merely a negative finding and does not mean anything. Such a finding should not be made by the court in the absence of positive evidence as to the existence of other manufacturers of spoolers or as to how they hung said spoolers.

## IV.

Objection is made to proposed finding XII on the ground that the record shows that Perry M. Moss was not the inventor of the subject matter described in the patent in suit. No objection, in view of the court's decision, would be made to a finding that stated that Perry M. Moss was the inventor of the combination claimed in claims 2 and 7 in issue.

## V.

Objection is made to proposed findings XIII to XXII, inclusive, upon the ground that these findings are drawn in the negative and in that respect are similar to findings which have been sometimes presented in state court actions. The court has rendered a forty-page decision in this action and it would appear that there are sufficient facts stated so that the plaintiffs can draw findings which would be positive in nature and therefore of more assistance to a court on appeal. It would appear from the opinion that this court raised a question as to whether prior uses pleaded were sufficiently proven. There is a distinction between such a question and the question as to whether facts were established

which might bear upon other defenses presented in the pleadings, for example, the issue of whether more than mechanical skill was involved in the claims in issue.

Furthermore, there is no justification for many of the assertions in said proposed findings XIII to XXII, inclusive. For example, in proposed finding XXII there is the assertion [96] that constructive notice was given promptly after the issuance of the patent in suit. As previously pointed out, there is no evidence before the court as to this. Furthermore, the question of delay in filing the action is charged to defendants, in effect, whereas the record clearly shows that although there were negotiations for settlement that the plaintiff and her predecessor in interest were free at all times to bring any suit for infringement that they may have desired. The bald assertion that any delay in filing the suit was caused by misrepresentations of the defendants is absolutely unsupported.

### Conclusions of Law

Defendants object to the conclusions of law as follows:

#### VI.

Objection is made to proposed conclusion I upon the ground that no claims are in issue except 2 and 7 and that any finding as to validity should be restricted specifically to said claims. Furthermore, the conclusion should be clear that the subject matter referred to therein refers to the claim as a combination. The court will recall it was ad-

mitted by the parties that if any invention resided in the Moss patent it had to do with the method of hanging the line at the top and in such a manner as to be covered by said claim.

#### VII.

Objection is made to proposed conclusion III on the ground that it is a finding of fact.

#### VIII.

Objection is made to proposed conclusion IV on the ground that it is a finding of fact.

#### IX.

An objection is made to proposed conclusions V, VI, VII and VIII, on the ground that they are findings of fact. [97]

#### X.

Objection is made to proposed conclusion X on the ground that the conclusion of law as to infringement should be tied in with a specific finding of fact which would identify the accused structure.

Further objection is made to proposed conclusion X upon the ground that the infringement is stated to be wanton and wilful and that the plaintiffs are entitled to recover treble damages. In view of the memorandum previously filed, it is not necessary to comment further herein on this particular question.

#### XI.

Objection is made to proposed conclusions XI and XII upon the ground that § 70 of Title 35 of

the United States Code does not confer attorneys' fees upon the prevailing party as a matter of right. A memorandum will be filed herein by defendants covering this particular question.

## XII.

Objection is made to proposed conclusion XIII on the ground that it does not identify the structures charged to infringe except in general language and said structures are not further identified in the proposed findings. It would be impossible from the findings and conclusions to determine what should be enjoined.

## XIII.

Objection is made to proposed conclusion XIV on the ground that under § 70 as now worded there is no recovery for profits and any recovery should be limited to the provisions of that section.

The objections to the proposed Judgment are in accordance with the objections heretofore made to the findings and [98] conclusions. We see no object in making objections to said judgment in view of the objections made herein. Defendants' position is that the proposed judgment should be modified in accordance with said objections, including any elimination of wilful infringement or an increase of damages.

LYON & LYON,

/s/ R. E. CAUGHEY,

Attorneys for Defendants.

Service of copy acknowledged.

[Endorsed]: Filed March 6, 1950.



[Title of District Court and Cause.]

PROPOSED FINDINGS OF FACT  
AND CONCLUSIONS OF LAW

(First filed February 28, 1950, and now re-written to conform to briefs, etc., filed April 28, 1950.)

Findings of Fact

As findings of fact the Court finds that:

I.

The cause of action set forth in the complaint in the above-entitled suit arises under the patent laws of the United States being a suit in equity under said patent laws.

II.

Plaintiff, Phoebe E. Moss, is a citizen of the United States, residing in the city of Long Beach, county of Los Angeles, and state of [101] California.

III.

Defendant Patterson-Ballagh Corporation, was at the time of the institution of this suit, on the 18th day of July, 1946, a corporation of the state of California, having its principal place of business in the city of Los Angeles, county of Los Angeles, and state of California.

IV.

Defendant Byron Jackson Company was, at the time of the trial of this action, and has been at all

times alleged in the complaint in this action, a corporation of the state of Delaware, having its principal place of business in the state of Delaware, and doing business in the city of Los Angeles, county of Los Angeles, and state of California.

## V.

That on November 27, 1946, the directors of said defendants, Patterson-Ballagh Corporation certified under oath that said last-named defendant corporation "has been completely wound up, known assets distributed tax or penalty paid \* \* \* and its other known debts and liabilities actually paid or adequately provided for, and that said corporation is dissolved." An endorsement on the file wrapper of No. 40,655, in the Corporation Department of the state of California at Los Angeles indicates actual dissolution as of December 13, 1946. Defendant Byron Jackson Company, as the adequate provision above recited, promised to pay said liabilities, including such sum as may be found due to plaintiff by reason of the infringement charged in the complaint.

## VI.

On February 20, 1940, there was granted to Perry M. Moss, the original plaintiff in this action, patent No. 2,190,880, for Draw Works Line Controllers, and since said issuance and up to the time of the assignment referred to in the immediately following finding of fact hereof, continued to be the sole owner of said Letters Patent. [102]

## VII.

Said Perry M. Moss is and was at all time mentioned in the complaint and Amended and Substituted Complaints, a citizen of the United States.

## VIII.

That on the 4th day of February, 1948, the said Perry M. Moss, mentioned in the immediately preceding paragraph of these findings, assigned to plaintiff herein, Phoebe E. Moss, his wife, his entire right, title and interest in and to said Letters Patent No. 2,190,880, by an instrument in writing, executed, acknowledged and delivered on said 4th day of February, 1948, and including in said last mentioned instrument an assignment to the said Phoebe E. Moss of the right to recover for past infringement of said Letters Patent, which assignment has been duly recorded in the records of the United States Patent Office in Liber W214, page 64.

## IX.

After the issuance of said patent No. 2,190,880, defendant Patterson-Ballagh Corporation, for a long time prior to the institution of this suit, and since said institution up to the date of dissolution of said corporation, in this Division and District and elsewhere in the United States and its possessions, and said Byron Jackson Company, a corporation, since said dissolution of defendant Patterson-Ballagh Corporation, and up to the time of the trial of this action, in this Division and District and elsewhere in the United States and its posses-

sions have been directly, and contributarily, wilfully infringing said Letters Patent No. 2,190,880, granted to aforesaid Perry M. Moss by making, selling, using and instructing and procuring others to sell and use Draw Works Line Controllers embodying the patented invention described in Claim 2 of said last-mentioned Letters Patent in suit; [103]

### X.

The said grantee of said Letters Patent in suit No. 2,190,880, namely, Perry M. Moss, has placed the required statutory notice, i.e., "Patent No. 2,190,880" on each and all of the Draw Works Line Controllers which he manufactured and sold under said Letters Patent; and has also given written notice prior to the institution of this action to each of the defendants named in the complaint of the said infringement; and since the assignment of said Letters Patent and right to recover the past damages resulting in infringement of said Letters Patent up to the time of the trial of this action the present plaintiff, Phoebe E. Moss, has continued to so manufacture and so mark.

### XI.

In the light of evidence of record, John E. Reed was not a prior inventor of the subject-matter described and claimed in the Moss patent in suit.

### XII.

The written description of the specification of said patent in suit No. 2,190,880 is sufficient as a

written description of the invention and discovery of the manner of making, constructing, and using it in such full, clear, concise and exact terms as to enable any person of skill in the art to which it appertains to make, construct, and use the same; and claims 2 and 7 thereof, distinctly claim the patentability of the subject-matter thereof.

### XIII.

That nominal plaintiff, Perry M. Moss, was the first and true inventor of the subject-matter covered by claims 2 and 7 of said Letters Patent in suit No. 2,190,880. [104]

### Conclusions of Law

As matters of law the Court concludes:

#### I.

The Letters Patent in suit No. 2,190,880, granted February 20, 1940, for Draw Works Line Controllers to Perry M. Moss as to claims 2 and 7 of said patent, involved invention; and said Perry M. Moss was the original, sole, first and true inventor of the subject-matter thereof.

#### II.

The Letters Patent in suit No. 2,190,880, were regularly issued and delivered to said patentee, Perry M. Moss.

#### III.

Notice of the granting and issuance of said Letters Patent were both constructively, by marking



and in writing, given to the defendants in this action prior to its institution.

#### IV.

The written description of the specification of said patent in suit No. 2,190,880, is sufficient under the law as a written description of the invention and discovery of the manner of making, constructing, and using it in such full, clear, concise and exact terms as to enable any person of skill in the art to which it appertains to make, construct, and use the same; and the claims 2 and 7 thereof, distinctly claim the patentability of the subject-matter thereof.

#### V.

In the light of the evidence of record in this action, any alleged prior manufacture, use or sale asserted to have been made of the subject-matter of the claims of the patent in suit, did not constitute any prior use or uses of the subject-matter covered by the claims of the said Moss patent in suit and particularly claims 2 and 7 thereof. [105]

#### VI.

The claims of the Moss patent in suit, and particularly claims 2 and 7 thereof are not functional; but, on the contrary, describe and claim and cover the structure of a line spooler.

#### VII.

Plaintiff, Perry M. Moss and his assignee, Phoebe E. Moss have not been guilty of inexcusable delay or laches in instituting and prosecuting this action.

## VIII.

Since the grant and issuance of said Letters Patent and within six (6) years prior to the institution of this action, defendants and each of them have been guilty of direct and contributory infringement, and such infringement has been wanton and wilful; and plaintiff is entitled to recover treble damages and interest under Title 35 and §67 of the U. S. Code.

## IX.

Plaintiff, Phoebe E. Moss, is entitled under the law, Title 35 §70 of the U. S. Code as amended August, 1946, to invoke this court's discretion to award to her attorneys' fees in this action.

## X.

Plaintiff's reasonable attorneys' fees under the law is fixed at the sum of ..... Dollars.

## XI.

Plaintiff is entitled to an injunction in due and proper form restraining defendants and each of them, their officers, employees, agents, and those in privity with any of them, and their confederates, from making, advertising, selling or offering for sale any of the devices or parts thereof found to infringe the Moss patent in suit.

## XII.

This cause is referred to a master of this court, namely, to ....., to take an accounting of damages, reasonable royalty, interest and

other recovery to which plaintiff [106] is entitled under these findings and conclusions and report the same to this court.

Signed this ....day of ....., 1950.

.....,

United States District Judge.

Lodged September 18, 1950. [107]

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[Title of District Court and Cause.]

## MEMORANDUM ON OBJECTIONS TO FINDINGS AND CONCLUSIONS

Judge Weinberger's Calendar, September 15, 1950.

At the request of the Court, counsel for the parties have filed proposed findings and conclusions, and discussion of such findings and conclusions has been had, both in the form of briefs, and orally, in court. The Court has now drawn its own findings and conclusions which are being filed herewith.

Referring to proposed findings of plaintiffs filed April 28, 1950, the Court is incorporating findings I, II, III, IV, V, VI, VII, VIII into its own findings in a more abbreviated form.

Referring to plaintiffs' proposed finding IX, we are of the opinion that plaintiffs have included therein [113] both findings and conclusions; this finding has been separated, and a portion mention-

ing infringement used in the Court's conclusions. The devices which plaintiffs claimed at the trial to have been manufactured by the defendants in infringement of the Moss patent are described; it is the Court's belief that the description given in its finding covers all of the devices which plaintiff claimed at the trial were infringing devices.

Regarding plaintiffs' proposed finding X, it appears that this finding as drawn by plaintiffs' counsel is also partly a conclusion; this finding has been re-worded to state the actual fact.

As to finding XI, the same is being used, except that the Court has omitted the word "prior," and limited the finding to claims 2 and 7.

Finding XII is incorporated in the Court's findings, with slight change in the wording.

Finding XIII is used, except that the Court has substituted the word "sole" for "first and true."

A finding as to claim 7 has been added, following suggestions of both counsel.

Plaintiffs' proposed conclusion I, the second phrase thereof (as to Moss being the first and true inventor), was included in the findings, as heretofore noted, with the word "sole" used instead of "first and true"; but as counsel for plaintiff desire it to be both a finding and a conclusion, and defendants have made no objection, the Court has included this statement in the conclusions also.

Conclusion II is used as found in Plaintiffs' proposed conclusions.

Conclusion III is included in the Court's conclusion No. VI. [114]

We agree with counsel for defendants that plaintiffs' conclusions IV, V and VI can be covered by a conclusion of validity and have made such a conclusion, V.

Plaintiffs' conclusion V is included in the Court's findings.

Referring to Plaintiffs' conclusion VII, as we have heretofore stated, the defense of laches was abandoned, and we are of the opinion it is not necessary to make a conclusion thereon. It may be that counsel will feel that a stipulation and order striking that defense from the answer should be filed to clarify the record.

The Court has added as a conclusion rather than a finding a statement that Phoebe M. Moss is the owner of said Letters Patent.

Plaintiffs' conclusion VIII has been worded to conform to the Court's finding on the subject of infringement.

We believe defendants' conclusion proposed in lieu of Plaintiffs' conclusion XI is in better form, and we have used it in our conclusion IX.

We have also added a conclusion regarding non-infringement of claim 7.

In Plaintiffs' conclusion XII, the proposed wording directs the special master to take an accounting, among other matters, of "reasonable royalty." The language of Section 70 of Title 35 U.S.C.A. is to the effect that general damages are to be awarded, not less than a reasonable royalty. Further, it is the Court's view that it is proper for the special master to take accounting for damages,



while costs and interest are to be fixed by the Court. Accordingly, the Court has added conclusion X, which also provides that Phoebe E. Moss is entitled to damages. [115]

We have made no findings or conclusions concerning wilful infringement or attorneys fees, but prefer to decide those issues after the report of the special master is presented. If either counsel believes this procedure to be erroneous, we should appreciate hearing from him so that we can consider whether an amendment to our findings and conclusions should be made prior to such report.

[Endorsed]: Filed September 18, 1950. [116]

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[Title of District Court and Cause.]

## FINDINGS OF FACT AND CONCLUSIONS OF LAW

The above-entitled action regularly came on for trial before the Court, Honorable Jacob Weinberger, judge presiding, plaintiffs in said action appearing by their counsel, Westall and Westall, by Joseph F. Westall, Esq., and Edward F. Westall, Esq., and defendants appearing by their counsel, Lyon and Lyon, by Reginald E. Caughey, Esq., and witnesses having been called and heard, counsel having been heard, and written argument and briefs having been filed after trial, and the Court, having rendered its written opinion, now makes the following Findings of Fact and Conclusions of Law.

## Findings of Fact

### I.

The cause of action set forth in the [117] complaint herein arises under the patent laws of the United States.

### II.

Perry M. Moss and Phoebe E. Moss are, and each of them have been, at all times mentioned in the pleadings herein, citizens of the United States.

Defendant Patterson-Ballagh Corporation was, at all times material herein until its dissolution, a corporation of the State of California, having its principal place of business in the City of Los Angeles, County of Los Angeles, State of California; defendant Byron Jackson Company was, at all times material herein, a corporation of the State of Delaware, doing business in the City of Los Angeles, County of Los Angeles and State of California.

### III.

Subsequent to the filing of this action defendant Byron Jackson Company acquired all of the assets of defendant Patterson-Ballagh Corporation and assumed any liability of Patterson-Ballagh Corporation in this action, and said latter corporation was dissolved and said Byron Jackson Company added as a defendant herein.

### IV.

That on February 20, 1940, there was granted to Perry M. Moss, the original plaintiff in this action,

Letters Patent No. 2,190,880, for Draw Works Line Controllers. That subsequent to the filing of this action and on February 4, 1948, Perry M. Moss assigned to Phoebe E. Moss, his wife, his right, title and interest in and to said Letters Patent; that said assignment was duly recorded in the United States Patent Office, that said assignment included the right to recover for past infringement of said Letters Patent.

V.

That the application for said Letters Patent No. [118] 2,190,880 contains a written description of said Draw Works Line Controllers and of the manner and process of making, constructing and using same, in full, clear, concise and exact terms sufficient to enable any person schooled in the art or science to which said device appertains, to make, construct and use the same; that in said application said Perry M. Moss distinctly pointed out the subject matter of claims 2 and 7 of said Letters Patent as his invention and discovery.

VI.

That John E. Reed was not an inventor of the subject matter covered by claims 2 and 7 of the said Letters Patent No. 2,190,880.

VII.

That Perry M. Moss was the sole inventor of the subject matter covered by claims 2 and 7 of said Letters Patent No. 2,190,880.

## VIII.

That the device or devices alleged by defendants to have been used, manufactured or sold by others prior to the date of invention by Perry M. Moss of the subject matter of claims 2 and 7 of said Letters Patent did not include the subject matter of said claims.

## IX.

Since the grant and issuance of said Letters Patent No. 2,190,880, and within six years prior to the institution of this action and subsequent thereto, defendant Patterson-Ballagh Corporation until its dissolution, and thereafter, defendant Byron Jackson Co., have, without the consent of the plaintiffs or either of them, manufactured and sold devices known as wire-line guides or spoolers of the type pictured in Plaintiff's exhibit 10 E, page 1948 thereof, described in said Exhibit as the Patterson-Ballagh [119] "4-section guide," "6-section guide" and "2-section guide"; that each of said devices contained all of the structural elements of claim 2 of said Letters Patent; that said wire-line guides or spoolers were sold by defendants with the knowledge and intent that the users thereof would hang said devices so as to perform the functions specified in claim 2 of said Letters Patent.

## X.

None of the devices of defendants mentioned in the preceding paragraph embody the subject matter of claim 7 of said Letters Patent.

## XI.

The plaintiffs have placed upon each and all of the Draw Works Line Controllers manufactured and sold by said plaintiffs under said Letters Patent, the mark, "Patent No. 2,190,880."

## XII.

On April 17, 1940, and on May 10, 1940, defendant Patterson-Ballagh Corporation was notified in writing by Perry M. Moss of the latter's claim that said corporation had infringed and was then infringing, Letters Patent No. 2,190,880.

## XIII.

This Court reserves its finding on the questions of wilful infringement and attorneys' fees until after the filing of the report of the Special Master.

## Conclusions of Law

From the foregoing Findings of Fact, the Court concludes:

## I.

That the Court has jurisdiction of the subject matter and the parties in this action. [120]

## II.

The Letters Patent No. 2,190,880 granted February 20, 1940, for Draw Works Line Controllers to Perry M. Moss involved invention as to claims 2 and 7 thereof; said Perry M. Moss was the sole inventor of the subject matter of said claims.



III.

Letters Patent No. 2,190,880 were regularly issued and delivered to said patentee, Perry M. Moss.

IV.

Phoebe E. Moss is the sole owner of said Letters Patent.

V.

Claims 2 and 7 of said Letters Patent are good and valid in law.

VI.

Notices of the granting and issuance of said Letters Patent and of plaintiffs' claim of defendants' infringement of said Letters Patent were given to defendants in this action prior to its institution.

VII.

The defendants, subsequent to the issuance of the patent in suit and within six years prior to the institution of this action, and subsequent thereto, have infringed claim 2 of said Letters Patent by the manufacture and sale of devices known as wire-line guides or spoolers, of the type pictured in Plaintiff's Exhibit 10 E, page 1948 thereof, described therein as the Patterson-Ballagh "4-section guide," "6-section guide" and "2-section guide."

VIII.

The defendants and each of them have not infringed claim 7 of said Letters Patent. [121]

IX.

Plaintiff Phoebe E. Moss is entitled to a judg-

ment holding claim 7 of said Letters Patent valid, and holding claim 2 of said Letters Patent valid and infringed and providing for the issuance of an injunction restraining defendants and each of them, their officers, agents, servants, employees and attorneys and those in active concert or participation with them from infringing claim 2 of said Letters Patent.

X.

Plaintiff Phoebe E. Moss is entitled to a judgment against defendants for damages for the infringement of said claim 2 of said Letters Patent and this cause should be referred to a Special Master to be appointed by this Court to take an accounting and report to this Court the amount of such damages under the provisions of Section 70 of Title 35 U.S.C.A.

XI.

The Court reserves its conclusion on the questions of wilful infringement and attorneys' fees until after the filing of the report of the Special Master.

Dated September 15, 1950.

/s/ JACOB WEINBERGER,  
United States District Judge.

[Endorsed]: Filed September 18, 1950. [122]

In the United States District Court, Southern  
District of California, Central Division

No. 5572-W Civ.

PERRY M. MOSS and PHOEBE E. MOSS,

Plaintiffs,

vs.

PATTERSON-BALLAGH CORPORATION, a  
California Corporation, and BYRON JACK-  
SON CO., a Delaware Corporation,

Defendants.

### JUDGMENT

The above-entitled action regularly came on for trial before the Court, Honorable Jacob Weinberger, judge presiding, plaintiffs in said action appearing by their counsel, Westall and Westall, by Joseph F. Westall, Esq., and Edward F. Westall, Esq., and defendants appearing by their counsel, Lyon and Lyon, by Reginald E. Caughey, Esq., and witnesses having been called and heard, counsel having been heard, written argument and briefs having been filed after trial, the Court having rendered its written opinion, and findings of fact and conclusions of law having been signed and filed the Court hereby upon such findings and conclusions,

Orders, Adjudges and Decrees, as follows: [123]

That a perpetual injunction issue out of and under the seal of this Court enjoining and restrain-

ing defendants and each of them, their officers, agents, servants, employees and attorneys and those in active concert or participation with them from infringing claim 2 of Letters Patent No. 2,190,880.

That plaintiff Phoebe E. Moss have and recover from defendants or either of them plaintiffs' taxable costs, fees and expenses of this suit, including reporter's fees.

That this case be referred to Ernest R. Utley, Esq., whose address is Subway Terminal Building, Los Angeles, California, as Special Master with all usual powers to take and report to the Court an account of any and all damages which plaintiff has sustained by reason of the infringement by defendants of claim 2 of the Letters Patent in suit.

Dated this 15th day of September, 1950.

/s/ JACOB WEINBERGER,

United States District Judge.

Entered September 18, 1950.

[Endorsed]: Filed September 18, 1950. [124]

In the United States District Court, Southern  
District of California, Central Division

No. 5572-W Civ.

PERRY M. MOSS and PHOEBE E. MOSS,

Plaintiffs,

vs.

PATTERSON-BALLAGH CORPORATION, a  
California Corporation, and BYRON JACK-  
SON CO., a Delaware Corporation,

Defendants.

## AMENDED INTERLOCUTORY JUDGMENT

The above-entitled action regularly came on for trial before the Court, Honorable Jacob Weinberger, judge presiding, plaintiffs in said action appearing by their counsel, Westall and Westall, by Joseph F. Westall, Esq., and Edward F. Westall, Esq., and defendants appearing by their counsel, Lyon and Lyon, by Reginald E. Caughey, Esq., and witnesses having been called and heard, counsel having been heard, written argument and briefs having been filed after trial, the Court having rendered its written opinion, and findings of fact and conclusions of law having been signed and filed the Court hereby upon such findings and conclusions,

Orders, Adjudges and Decrees, as follows:

### I.

That this Court has jurisdiction of the parties and of [131] the subject matter.



## II.

That the plaintiff Phoebe E. Moss is the owner of all the right, title and interest in and to the patent in suit 2,190,880, together with all rights of action for past infringement, and said patent, as to claims 2 and 7 thereof, is good and valid in law.

## III.

That the defendants, and each of them, without the consent of the plaintiffs, or either of them, and in infringement of claim 2 of patent 2,190,880, manufactured and sold wire line guides or spoolers of the type pictured in plaintiffs' exhibit 10E, page 1948 thereof, and described in said exhibit as the Patterson-Ballagh 4-section guide, 6-section guide and 2-section guide, and with the knowledge and intent that the purchasers and users of said wire line guides or spoolers would hang the same so as to perform the function specified in claim 2 of said patent 2,190,880.

## IV.

That none of the wire line guides or spoolers of defendants specified in the preceding paragraph embodied the subject matter of claim 7 of patent 2,190,880 and the defendants, and each of them, have not infringed claim 7 of said patent.

## V.

That a perpetual injunction issue out of and under the seal of this Court enjoining and restraining defendants, and each of them, their officers, agents, servants, employees and attorneys and those

in active concert or participation with them from infringing claim 2 of Letters Patent No. [132] 2,190,880.

VI.

That plaintiff Phoebe E. Moss have and recover from defendants, or either of them, damages for said infringement, and plaintiffs' taxable costs, fees and expenses of this suit, including reporter's fees. Costs taxed at \$406.40.

VII.

That this case be referred to Ernest R. Utley, Esq., whose address is Subway Terminal Building, Los Angeles, California, as Special Master, with all usual powers to take and report to the Court an account of any and all damages which plaintiff has sustained by reason of the infringement by defendants of claim 2 of the Letters Patent in suit, the Court reserving the issues of wilful infringement and attorneys' fees.

Dated October 13, 1950.

/s/ JACOB WEINBERGER,

United States District Judge.

[Endorsed]: Filed October 14, 1950.

Entered October 16, 1950. [133]

[Title of District Court and Cause.]

### NOTICE OF APPEAL

Notice is hereby given that Patterson-Ballagh Corporation, a California corporation, and Byron Jackson Co., a Delaware corporation, defendants above named, appeal to the Court of Appeals for the Ninth Circuit from so much of the Judgment entered in this action on October 16, 1950, as is ordered, adjudged and decreed in and by Paragraphs II, III, V, VI and VII and each thereof.

Dated this 14th day of November, 1950.

LYON & LYON,

LEONARD S. LYON, JR.,

/s/ LEONARD S. LYON, JR.,

Attorneys for Defendants.

[Endorsed]: Filed November 14, 1950. [134]

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[Title of District Court and Cause.]

### ORDER UNDER RULE 73(g)

Upon Good Cause Shown, it is hereby ordered that defendants in this cause shall have to and including January 26, 1951, in which to docket the record on appeal in the Court of Appeals for the Ninth Circuit.

/s/ JAMES M. CARTER,

Judge.

Dated December 21st, 1950.

[Endorsed]: Filed December 21, 1950. [135]

[Title of District Court and Cause.]

STIPULATION AND ORDER EXTENDING  
TIME TO DOCKET APPEAL

It Is Stipulated by and between the parties,  
through their respective counsel, that the appellants  
may have up to and including February 12, 1951,  
within which to docket the above-entitled appeal  
with the Clerk of the Court of Appeals for the  
Ninth Circuit.

Dated this 25th day of January, 1951.

WESTALL & WESTALL,

By /s/ JOSEPH F. WESTALL,  
Attorneys for Plaintiffs-  
Appellees,

LYON & LYON,

/s/ R. E. CAUGHEY,  
Attorneys for Defendants-  
Appellants.

It Is so Ordered this 25th day of January, 1951.

/s/ JACOB WEINBERGER,  
Judge.

Receipt of Copy acknowledged.

[Endorsed]: Filed January 26, 1951. [140]

In the United States District Court for the  
Southern District of California, Central Division

No. 5572-W Civil

Honorable Jacob Weinberger, Judge Presiding.

PHOEBE E. MOSS and PERRY M. MOSS,  
Plaintiffs,

vs.

PATTERSON-BALLAGH CORPORATION and  
BYRON JACKSON CO.,  
Defendants.

REPORTER'S TRANSCRIPT OF  
PROCEEDINGS

Tuesday, February 17, 1948

Appearances:

For the Plaintiffs:

JOSEPH F. WESTALL, and  
EDWARD F. WESTALL,  
702 Wm. Fox Building,  
Los Angeles, California.

For the Defendants:

LYON & LYON, by  
R. E. CAUGHEY,  
811 West Seventh Street,  
Los Angeles, California.



Mr. Joseph F. Westall: If the court please, we offer in evidence the file wrapper and its contents, that is, the application proceeding of the Moss patent in suit, as Plaintiffs' Exhibit No. 11.

The Court: It may be received.

The Clerk: Are you reserving the other numbers for the deposition exhibits?

Mr. Joseph F. Westall: Yes; for the deposition.

The Clerk: Plaintiffs' Exhibit 11.

Mr. Joseph F. Westall: Then, we also offer in evidence the file wrapper of the Reed patent No. 2,238,398, granted April 15, 1941, as Plaintiffs' Exhibit No. 12.

The Court: It may be received.

Mr. Joseph F. Westall: We also offer in evidence a [25\*] certified copy of the corporation records, showing the dissolution of Patterson-Ballagh, as Plaintiffs' Exhibit 13.

\* \* \*

The Court: It may be received.

Mr. Joseph F. Westall: We offer in evidence the assignment of the entire right, title and interest to the patent in suit No. 2,190,880, granted February 20, 1950, and the right to recover profits and damages for past infringement, the assignment being of Perry M. Moss to his wife, Mrs. Phoebe E. Moss, as Plaintiffs' Exhibit 14.

The Court: It may be received.

Mr. Joseph F. Westall: We also offer in evidence a second assignment by Perry M. Moss to Mrs.

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\* Page numbering appearing at top of page of original Reporter's Transcript of Record.

Moss, the plaintiff in this case, of said Letters Patent in suit, which is an assignment to Mrs. Moss, as her sole and separate property, not only of the patent in suit but the right to recover for past and future infringement thereof, as her sole and separate property, as Plaintiffs' Exhibit 15. [26]

The Court: It may be received.

Mr. Joseph F. Westall: I would like to call Mr. Andersen to take the stand.

A. M. ANDERSEN

a witness for the plaintiffs, being first duly sworn, testified as follows:

The Clerk: What is your name?

A. A. M. Andersen.

Direct Examination

By Mr. Joseph F. Westall:

Q. What is your occupation?

A. Well, I am at the present time with the T. & T. Oil Company, in charge of transportation and materials; their drilling contractor.

Q. I didn't hear that.

A. Their drilling contractor.

Q. Where do you reside?

A. Bakersfield, 1711 Second Street.

Q. You are of legal age, are you not?

A. Yes, sir.

Q. Please state what, if any, education, training and experience you have had in oil well drilling or oil well management and over what period?

(Testimony of A. M. Andersen.)

A. Well, since 1922. I started with the Holly Oil and Holly Development Companies in September, 1922, and have been [27] in that with the exception of about two years, which was 1944 and 1945, when I was temporarily out of it.

Q. And what was the nature of your experience during that time?

A. At the time I was with the Holly Oil and Development Companies, I had charge of production and later had charge of development work, which started in along in the early thirties.

Q. Were you ever connected in any manner with the Conrad Well No. 1 of the Holly Oil Company?

A. Yes, sir. It is a well that the Holly Oil Company drilled on a lease known as the Conrad lease.

Q. I hand you a binder, which I ask be marked for identification as Plaintiffs' Exhibit 16, of what are labeled "Drillers' Daily Reports of the Holly Oil Company," referring to Conrad No. 1, and ask you whether or not those are the original drillers' reports relating to the work on that well.

The Clerk: Plaintiffs' Exhibit 16 for identification.

\* \* \*

A. Well, as far as I have gone through here, they are with the exception of one or two of these reports. I have initialed them, which was common practice when I had charge of operations. [28]

\* \* \*

Q. I believe that you were stating that there

(Testimony of A. M. Andersen.)

was some exception, that you hadn't signed one or two of them, did you say?

A. I presume it was either an oversight or that I was not on the job. This happened occasionally. However, it was, obviously—the initialing of those reports would indicate we had examined the reports and, if they were not initialed, it did not mean that the performance wasn't proceeding as ordinary, where they were initialed.

Q. Will you answer?

The Court: He has identified the reports.

Mr. Joseph F. Westall: Yes.

Q. Now, please examine Plaintiffs' Exhibit 16 for identification, the drillers' reports, and state the period of time covered by said reports.

A. It started in May, May 3rd, and there may have been an occasional tour omitted in the early stages of the operation.

The Court: What year?

A. 1936. The work was completed—— [29]

The Court: You have answered the question.

Mr. Joseph F. Westall: Yes.

Q. I call your attention to a number of apparent signatures near the bottom of the drillers' reports of May 16, 1936, Plaintiffs' Exhibit 16 for identification, and ask if such apparent signatures are signatures and if you recognize them and, if so, of whom are they signatures?

A. We have the signature of Perry Moss, driller; R. W. Moody, cat head; B. L. Thornton,

(Testimony of A. M. Andersen.)

derrick man; D. K. Clapp, pipe racker, and O. M. or O. W. Wilson.

It has been——

The Court: Will you keep your voice up? Everybody has to hear you.

A. Do you want the balance of those? There are some more names on here.

Q. (By Mr. Joseph F. Westall): I think that is enough. Please examine each of the daily drillers' reports. Exhibit 16 for identification, and state whether or not you do not find the signature of Perry M. Moss, the plaintiff in this case, on each of them.

The Court: Do you want to select those pages and show them to the witness?

Mr. Joseph F. Westall: The name is on every one of them, your Honor.

A. Yes; they appear on every one of them. [30]

Mr. Caughey: I would suggest, if you are familiar with those files, you point out those particular portions.

Mr. Joseph F. Westall: Yes. I was asking him if he finds the signature of Perry M. Moss.

A. I find "Perry Moss." He has signed them "Perry Moss." He didn't use his middle initial, "Perry M. Moss." I am sure that that is the name.

Q. You know that Perry M. Moss was working on that well from the start to the end of it, do you?

A. Yes, sir; he was a driller.

Q. Did Perry M. Moss, the plaintiff in this



(Testimony of A. M. Andersen.)

suit, ever disclose to you an invention of a draw works line controller?

A. At one time, in the process of drilling this well, he did discuss a line spooler. I can't tell you the date but I do know that it was during the period we were working this well.

Q. Please refer to the drillers' report of May 16, 1936, and see if there is anything that refreshes your recollection as to the date.

Mr. Caughey: I object to the question unless counsel lays the proper foundation as to place and time and parties present.

Mr. Joseph F. Westall: We will lay the foundation. I just asked him whether it disclosed it.

Mr. Caughey: I want him to lay the foundation so we [31] know where it took place, who was present and when it was, if he knows.

Mr. Joseph F. Westall: We intend to do that.

The Court: Are you just asking him to pull out that particular file or what are you inquiring about now?

Mr. Joseph F. Westall: I simply asked him to refer to the drillers' report of May 16, 1936, in order to see if that refreshes his recollection as to when this disclosure took place that I just referred to.

A. Well, it was probably——

The Court: Before you answer that question, have you examined that file there?

A. Yes, sir.

The Court: The objection is overruled.

(Testimony of A. M. Andersen.)

Q. (By Mr. Joseph F. Westall): Do you remember whether that was the date of the disclosure?

A. I can't say definitely that it was. However, I know that it was in the early stages of the drilling of this well that Perry Moss mentioned to me this line spooler.

Q. Where did this conversation, at which Mr. Moss disclosed the invention, take place?

A. On the floor of the oil derrick.

Q. And who was present, if anyone?

A. As I recall, it was shift-changing time and the driller that was relieving Perry Moss was on the floor and [32] probably all of his roughnecks. However, I can't say that any of them heard the conversation.

Q. Nor took part in it?

A. I can't say as to that; no, sir.

Q. Will you please describe generally what Perry M. Moss disclosed to you at the time you endeavored to fix?

A. His idea at the time was to take a piece of pipe and split it and insert his rubber blocks, as they are termed, or bearings, and run that over the line, instead of the crude way we were doing it at that time, with a piece of rotary chain, which was far from safe and very impractical and hard on the line. And I probably made the remark, like a lot of other fellows that tried to perfect something like that, that it probably was just another idea. But he did go into some detail. And shortly after,

(Testimony of A. M. Andersen.)

when he showed me his plans of what he had in mind, it did look very practical.

Q. Did he explain to you how the spooler was to be hung in the derrick?

A. Well, of course anything as heavy as that would have to be hung; otherwise, you would get no stabilization of it. It would be jumping all over the derrick, not so much probably coming out of the hole as going in the hole. But, when they are going in the hole with those rotary outfits, they run terribly fast and, if you didn't have some stability, you wouldn't have a line spooler. His ideas were explained [33] exactly as that model.

Mr. Joseph F. Westall: As the model shown of the derrick, of the small wooden derrick.

Q. Did he state about the hanging from the top?

A. Yes, sir.

Q. Did he explain why it was to be hung that way?

A. Well, in order to suspend it. In other words, the weights wouldn't suspend that line spooler and give it any stability at all. The general practice——

The Court: What is the date, did you say?

A. I cannot tell you the exact date. It was early in the process of drilling this well.

The Court: What year?

A. 1936.

Q. (By Mr. Joseph F. Westall): I show you the Moss patent in suit, to be hereafter introduced, or a copy of the Moss patent in suit, which is already marked in the deposition of Mr. Moss as Exhibit 1, and which will be formally introduced

(Testimony of A. M. Andersen.)

when we read the deposition, and ask you to please compare the disclosure that Mr. Moss made to you with the drawing of that Letters Patent.

A. Well, it appears to me that it is exactly as he had explained it inasmuch as that he later built an ideal model compared to his patent, and probably the sketch he showed me gave birth to the present spooler or guide. [34]

\* \* \*

Q. (By Mr. Joseph F. Westall): Do you remember whether he showed you a sketch then?

A. Not at the time we first discussed it. It was later.

The Court: Does that straighten out your objection?

Mr. Caughey: Yes, your Honor.

Q. (By Mr. Joseph F. Westall): After this disclosure of the subject matter of said Moss patent in suit, as testified by you, some time early in May, 1936, do you know whether Perry M. Moss made or caused to be made a draw works line controller like or similar to that disclosed in his patent? I mean a full-sized device. [35]

A. Yes, sir; I know that positively.

Q. Do you know when he began to make that device or when he made that device?

A. As to date I could not say.

The Court: What do you call that? What is the name you gave to it?

Mr. Joseph F. Westall: A full-sized device.

The Court: Device of what?



(Testimony of A. M. Andersen.)

Mr. Joseph F. Westall: Of the patent in suit.

Mr. Caughey: May your Honor please, I think your Honor's question was prompted by the fact that Mr. Westall referred to the device somewhat differently than he referred to it before. I wonder if we could agree to refer to it as a certain specific thing, either as a wire line spooler or wire line guide?

The Court: If you will give it a name, then I can follow it better.

Mr. Joseph F. Westall: We can call it a spooler.

Mr. Caughey: All right; call it a spooler.

The Court: Will you show me what that is?

Mr. Joseph F. Westall: This is the spooler.

The Court: That is, that entire unit?

Mr. Joseph F. Westall: Yes; as shown in the derrick.

Q. Now, did you ever discuss with Mr. Moss the desirability of testing his theory to see whether it would work? [36]

A. Subsequent to the drilling of this Conrad well, the company purchased one of them and it was probably the first one that was put in operation. And I can't tell you exactly what the date was but I am sure that there are records that will show the exact date of the purchase of that line spooler.

Q. Yes; I was going to reach that. I believe you said you were connected with the Holly Oil Company as superintendent?

A. Yes, sir; in charge of operations and production.



(Testimony of A. M. Andersen.)

Q. Did the Holly Oil Company or you as superintendent use any spooler on the Conrad Well No. 1 during the period covered by the drillers' reports in evidence as Plaintiffs' Exhibit 16?

A. We used the rotary chain, which was common practice at that time.

Q. What kind of a device was that?

A. It was simply a rotary chain which has rollers in between the—in the links themselves, and you run your line through the link, which gives you a bearing effect on two sides. However, the rollers are very small and never were practical and are made of steel because of the excessive wear to the line as it traveled through it. However, it did offer some stability and was commonly used.

Q. That was in the absence of any other spooler, is that true? [37]

A. Yes, sir. I never saw a spooler outside of the chain spooler until we purchased from Perry Moss the spooler you have here.

Q. Did Perry M. Moss ever sell any spooler as described in his patent in suit to you?

A. He did.

Q. To whom did he sell that spooler?

A. To the Holly Oil Company at the beginning or shortly after the beginning of the drilling of No. 7-A well.

Q. And that was where?

A. On the Holly Oil property proper.

Q. At Huntington Beach?           A. Yes, sir.

(Testimony of A. M. Andersen.)

The Court: Did you have the time fixed for that? Will you fix the time for that?

Mr. Joseph F. Westall: Yes; I will.

A. I think it can be established.

Mr. Joseph F. Westall: I have got the document showing the time of purchase.

Q. Will you please examine the document which I now show you, which I ask be marked for identification as Plaintiffs' Exhibit 17 for identification, and see if you can identify it?

The Court: It may be marked for identification.

Mr. Joseph F. Westall: I will ask that it be marked [38] for identification as Plaintiffs' Exhibit 17.

The Clerk: Plaintiffs' Exhibit 17 for identification.

Q. (By Mr. Joseph F. Westall): Purporting to be an order number of the Holly Oil Company to P. M. Moss for a line spooler?

A. Yes, sir. Those are positively my initials, and C. A. Johnson's, the president and general manager of that company, who generally had the invoices passed over his desk and initialed them also, and that is the original.

Q. Does the date on this order number, May 4, 1937, refresh your recollection as to when the order was made out?

A. Well, it is the date that we bought the spooler, obviously. I suppose Holly would have some records to substantiate it together with this, in the way of

(Testimony of A. M. Andersen.)

drawing vouchers and so forth. I don't know if they would be available or not. [39]

\* \* \*

Q. (By Mr. Joseph F. Westall): After that line spooler was purchased, after you got possession of it, did you put it to any use? Did you test it?

A. We did.

Q. And on what well did you test it?

A. On Holly Oil Well 7-A.

Q. At Huntington Beach, of the Holly Oil Company?

A. Yes, sir.

Q. When was it tested?

A. Immediately after purchasing and the drilling of that well.

Q. Could you give an approximation of when that was?

A. I can't tell you the date that the well was spudded but it was immediately after we spudded that well that we purchased the line spooler and put it into practice.

Q. Can you refresh your recollection by an examination of the drillers' reports of that well?

A. I presume I could.

Mr. Joseph F. Westall: We ask that the drillers' reports of the Holly Oil Company Well 7-A be marked for identification as Plaintiffs' Exhibit 18.

The Court: They may be so marked.

Q. (By Mr. Joseph F. Westall): I will ask you to state whether or not the binder which I hand you, marked "Drillers' Daily Reports, Holly Oil Com-

(Testimony of A. M. Andersen.)

pany, Well No. 7-A," [40] relates to the well which you have been discussing.

A. These are copies of the log of that well, the drillers' reports.

Mr. Joseph F. Westall: We now offer in evidence, as Plaintiffs' Exhibit 17, the order number of the Holly Oil Company, heretofore marked for identification, as Plaintiffs' Exhibit 17.

Mr. Caughey: May I ask the witness, before that is ruled on—I don't remember that he said specifically that that was their usual——

The Court: You may ask him.

Mr. Caughey: Do you recognize that as an order of the Holly Oil Company?

The Witness: That is not an order. That is a sales sheet from Moss. In other words, an invoice is what that is.

Mr. Caughey: Is this what the Holly Oil Company received from Moss?

The Witness: That is right.

Mr. Caughey: Is that your testimony?

The Witness: Yes, sir.

Mr. Caughey: And did you receive it?

The Witness: We certainly did.

Mr. Caughey: I didn't ask you whether "we did." I asked whether you did.

The Witness: I initialed it. [41]

Mr. Caughey: You initialed it when it was received?

The Witness: When it was received and went

(Testimony of A. M. Andersen.)

through the clerks' hands, they put that stamp on there, as you will note.

Mr. Caughey: And, when you say "they," you mean the clerks, is that right?

The Witness: That is right; in the process of going through the office, and I initialed it as having been received.

Mr. Caughey: Where, Mr. Anderson, has this been, to your knowledge, since then?

The Witness: I presume in the files of the company.

Mr. Caughey: You had nothing to do with producing it here?

The Witness: I did not, sir.

Mr. Caughey: And you have no specific recollection yourself at the present time of this particular order?

The Witness: It could be nothing but the original to my way of thinking.

Mr. Caughey: It could be?

The Witness: It couldn't be anything but the original.

Mr. Caughey: You have no specific recollection of it, though, as this particular order, do you?

The Witness: I do, sir, because, when those things came in, they didn't come in only through the regular process of business and that is the way it was handled and I initialed [42] it and it was sent into the Los Angeles office, and Mr. Johnson initialed it. And, if you go into the records, you will find a voucher was drawn for it.



(Testimony of A. M. Andersen.)

Mr. Caughey: My question was whether you at the present time have a distinct recollection of this particular order.

The Witness: It certainly would refresh my memory to the point of where it was in the regular process of business. As far as remembering the specific incident, no, but the proof is there, inasmuch as I initialed it and it was initialed at the time that the purchase was made.

Mr. Caughey: And that was May 4, 1937, the date shown on that?

The Witness: That is right.

Mr. Caughey: That is the date you initialed it?

The Witness: It probably isn't the date I initialed it. It may have been a day or two later, after it went through the channels in the office and was placed on my desk, but it was certainly in that immediate vicinity of time.

Mr. Caughey: But there isn't any question in your mind but what that is an order that was received by the Holly Oil Company?

The Witness: Definitely.

Mr. Caughey: And it covers the particular device which subsequently you hung in the well?

The Witness: Yes, sir. [43]

Mr. Caughey: There is no question about that?

The Witness: No, sir.

The Court: It may be received and marked in evidence as Plaintiff's Exhibit 17.

Mr. Joseph F. Westall: We offer in evidence,

(Testimony of A. M. Andersen.)

as Plaintiffs' Exhibit 18, the drillers' daily reports of Well No. 7-A of the Holly Oil Company.

Mr. Caughey: May your Honor please, my recollection is that the witness testified that this was a copy of the drillers' reports.

The Witness: That is a copy of the drillers' reports and log, whereas on the Conrad it is the original.

The Court: Where is the original?

The Witness: The original is probably in the Los Angeles office of the Holly Oil Company.

Q. (By Mr. Joseph F. Westall): This was a carbon that was made at the same time?

A. That is right. That is an exact duplicate of the original. It was the custom of the company to send the originals to the Los Angeles office and the copies were filed at Huntington Beach.

Mr. Caughey: I won't make any objection to that, your Honor.

The Court: It may be received as Plaintiffs' Exhibit 18.

The Clerk: Plaintiffs' Exhibit 18 in [44] evidence.

Mr. Joseph F. Westall: We also offer in evidence the drillers' daily reports of the Holly Oil Company of Conrad Well No. 1, heretofore marked for identification as Plaintiff's Exhibit 16.

Mr. Caughey: May your Honor please, I would like to ask why they are offering all of Exhibit 18, for example. I have no objection to it all going in but it seems to me that it was merely to refresh

(Testimony of A. M. Andersen.)

the witness' recollection as to when the well was spudded in and that we can agree as to that. I don't see any reason for encumbering the record with quite a bulky document here, the main portion of which, obviously has nothing to do with any of the issues.

Mr. Joseph F. Westall: It shows the length of time, the period of time.

Mr. Caughey: I will stipulate to that. There is no objection to that. I will stipulate that this was spudded in on 4-7-37 and that this particular drillers' daily report goes through to 1-9-38. I will stipulate to that as to this particular well.

The Court: Exhibit what?

Mr. Caughey: 18.

Mr. Joseph F. Westall: April 4, 1937, and it goes to January 9, 1938.

Mr. Caughey: That is correct.

The Court: That is, the well was spudded in on that first [45] date?

Mr. Joseph F. Westall: Yes.

The Court: What do you want to do about the exhibit now? Do you want to withdraw it?

Mr. Joseph F. Westall: With that stipulation, it will be satisfactory and we will withdraw the exhibit.

The Court: Exhibit 18 is withdrawn, is it?

Mr. Joseph F. Westall: Yes; Exhibit 18 for identification.

The Clerk: The offer is pending on Exhibit No. 16.

(Testimony of A. M. Andersen.)

Mr. Caughey: I am perfectly willing to stipulate as to Exhibit 16 that Conrad No. 1 was spudded in on May 3, 1936, and that the last page on this drillers' report in this particular document is August 29, 1936. I have no objection to putting in the particular page of May 16, 1936, which was specifically referred to by the witness, on which Mr. Moss' alleged disclosure was made. [46]

\* \* \*

The Court: Will you do this? Will you mark that particular page?

Mr. Joseph F. Westall: Yes.

The Court: And then, after you are through with it——

Mr. Westall: Put that in evidence as a Plaintiffs' Exhibit by this number.

The Court: All right. Is there any objection to that procedure?

Mr. Caughey: No; none whatever, your Honor.

The Court: Just mark that particular page and this will remain for identification as Exhibit No. 16.

The Clerk: Shall I number the page "16-A"?

The Court: It may remain for identification and then Exhibit 16-A may be received in evidence. Is that satisfactory?

Mr. Joseph F. Westall: Just a minute. With that stipulation, we offer in evidence now the drillers' daily reports of the Holly Oil Company Conrad No. 1, dated May 16, 1936, as Plaintiffs' Exhibit 16-A.

(Testimony of A. M. Andersen.)

The Court: Exhibit 16-A in evidence?

Mr. Joseph F. Westall: Yes.

The Court: It may be received. And Exhibit 16, the [47] rest of the file, will remain for identification, is that correct?

Mr. Joseph F. Westall: Yes; that will remain for identification.

Q. Now, I don't know whether I asked you if they tested that spooler that the Holly Oil Company purchased, as shown by the order which you have identified. A. It was operated.

Q. Actually operated?

A. And it was, obviously, tested through the operation.

Q. Do you know whether or not it was successful? A. It was.

Q. And do you know whether it is still in use?

A. Not having been with the Holly Company for several years, I can't say whether it is still in use but I would venture to say it is there on the property somewhere.

Mr. Caughey: May I ask that the latter part of the answer be stricken, your Honor, as a conclusion?

The Court: The latter part may be stricken beginning with "venture to say."

Mr. Caughey: Yes; that is correct.

Mr. Joseph F. Westall: Yes; that is right. That isn't so good. That is all. [48]



(Testimony of A. M. Andersen.)

Cross-Examination

By Mr. Caughey:

Q. Mr. Andersen, your testimony was, as I remember it, that it was on or about May 16th that Mr. Moss made this disclosure to you?

A. Yes, sir; early in the drilling of that well.

Q. You understood when he made the disclosure that what he was trying to accomplish was to eliminate the whipping in the line, in the wire line, that went from the crown block to the drum, is that right?

A. Well, I would say that was one of the features.

Q. Wasn't that the principal feature?

A. You already had something that would take a certain amount of whip out of the line.

Q. But it didn't do a good job, did it?

A. It wasn't sufficient and it was hazardous and hard on the equipment. [50]

Q. And you understood what Mr. Moss was talking about was something that would do a better job than the previous equipment you had?

A. That is right.

Q. And that was to eliminate the whipping in the line, is that right?

A. Together with saving the equipment.

Q. Saving the equipment? A. Yes, sir.

Q. That previous equipment that you talked about you stated was just a chain that was fastened around the wire line?

(Testimony of A. M. Andersen.)

A. You simply bent a link and slipped the wire line in there and put it back together and had your weights on either end, which gave you some stability.

Q. Did you have a line running from that structure up to any place up on the derrick?

A. No, sir; not even as a safety measure.

Q. Not even as a safety line? A. No, sir.

Q. That is, they relied just on the weights on the side to hold it in place? A. That is right.

Q. There wasn't sufficient friction between that structure and the line to cause that structure to ride up on [51] the wire rope, was there?

A. It was very negligible.

Q. As a matter of fact, if you had had very much friction, you would have had a lot of sparks, wouldn't you?

A. I think sometimes we did have sparks.

Q. And that is one thing you wanted to eliminate? A. Yes.

Q. Did you understand that this construction that Mr. Moss disclosed to you would have a closer fit along the wire line than the previous construction?

A. Well, I can't say as to the fit but it was longer, which would obviously give you stability.

Q. Did he tell you how long it was going to be?

A. As I recall, he gave me a very good mental picture and the picture was very much in line with what he later did.

Q. How long was it? How long did he say it

(Testimony of A. M. Andersen.)

should be when he disclosed this to you on or about May 16, 1936?

A. I presume it was in the neighborhood of 30 inches but I couldn't say as to that. It was somewhere in that neighborhood.

Q. Did he tell you it would have rubber bearings inside? A. Yes, sir.

The Court: Just what is it you are discussing when you say "it"? [52]

Mr. Caughey: I am discussing what we have agreed upon as the spooler.

Q. This spooler that Mr. Moss disclosed to you you stated was to have rubber bearings in it? That is what he disclosed to you? A. Yes, sir.

Q. And it was to have a side bridle such as shown in this spooler that is in this little model?

A. Yes, sir.

Q. It was to have either a wire or some means running from a pulley and weights on each side, is that correct? A. That is right.

Q. Did he describe to you whether this was to be hinged or was it to be two pieces latched together or hinged or what?

A. I can't say in that minor detail. I do not remember.

Q. But you do recall that he specified that the line should be hung from the top?

A. Because of the size of it and the weight of it, it would have to be suspended.

Q. You knew that, didn't you, too?

A. It was obvious, if he was going to build any-

(Testimony of A. M. Andersen.)

thing as massive as it was, he would have to suspend it because he couldn't put weights on the outside. I don't believe it would have kept it in suspension. [53]

Q. In other words, the weights on the outside were such that it would sag in the middle?

A. That would be the actual experience if you were to have the real model.

Q. After he made this disclosure to you, as you said, you believe on or about May 16th, although you can't fix any definite time, as I understand your testimony, it wasn't until some time in May, 1937, that the Holly Oil Company actually bought one of these spoolers? A. That is right.

Q. In the meantime, did you see any other spoolers? A. I did not.

Q. As far as you knew, that was the first spooler that was ever manufactured and sold, when the Holly Oil Company bought it?

A. I would say that it was the only thing that I had ever seen that looked practical.

Q. I mean you didn't see any other like or hear of any other like Mr. Moss'? A. No, sir.

Q. Subsequent to purchasing this spooler on May 4th, do you recall any other spoolers purchased from Mr. Moss by the Holly Oil Company?

A. No, sir.

Q. As far as you know, that was the only [54] one?

A. That is the only one the Holly Oil Company purchased that I know of.

(Testimony of A. M. Andersen.)

Q. And that was used at Huntington Beach?

A. Yes, sir; on Well No. 7-A.

Q. After it was used on the well which was spudded in in January, not the Conrad but the other one—what was the name of it?

A. The 7-A. I think it was early in May when it was spudded.

Q. Do you recall the next well that that particular spooler was used on, that you purchased from Mr. Moss?

A. It is possible that it was used on wells where we did remedial work. However, no subsequent wells were drilled on the lease.

Q. So any time it would be used would be on some job where you were not drilling?

A. Doing remedial work.

Q. And you can't recall any specific well that was done on?

A. Offhand, I couldn't tell you which was the first one in line. I am sure it was run on subsequent wells.

Q. Do you know what time? A. No.

Q. You have had a lot of practical experience in oil fields, have you not, Mr. Andersen? [55]

A. I have.

Q. Both in drilling and producing?

A. Yes, sir.

Q. I believe you stated you were superintendent of Holly at that time?

A. I was superintendent for the Holly Oil Company and the Holly Development Company.



(Testimony of A. M. Andersen.)

Q. As superintendent, what did your duties include, briefly?

A. Supervising the production and development work.

Q. And, when you say "development," you include drilling? A. That is right.

Q. And Mr. Moss was working on the rig under you?

A. He was working on this Conrad well under me. I don't think Mr. Moss was immediately employed on 7-A.

Q. Just on Conrad?

A. Well, he may have done some work on 7-A. I couldn't say without going through the log.

Q. And was he a driller?

A. He was a driller.

Q. I believe you testified, did you not, that, when the line went into the well, it went in a lot faster than it came out? A. Yes, sir. [56]

Q. That is obvious almost, isn't it, and there would be no trouble then of the friction on the line carrying the line spooler up when the line went in?

A. Well, we never had any trouble.

Q. In other words, you stated that there was sufficient clearance in the spooler that Mr. Moss sold Holly between the inside periphery in the hole and the line so that you didn't have any particular trouble with the friction carrying it up on the line, is that right?

A. Well, obviously, from a practical standpoint, you wouldn't have that so that it would fit tight

(Testimony of A. M. Andersen.)

enough to create a friction. It would be against better judgment to even install it that way.

Q. May I ask you do you have any recollection as to how much clearance there was between the line and the inside periphery?

A. I would say this, that, from a practical standpoint, you wouldn't have less than an inch and an eighth hole if you ran the inch line through it, which was common practice in those days, with a one-inch casing.

Q. In other words, you would have about an eighth clearance all around, no less than that?

A. I didn't say all around. I said you wouldn't have less than an inch and an eighth hole if you were going to run an inch line through it. [57]

Q. Do you actually recall how much clearance there was on this spooler of Mr. Moss?

A. I do not.

Q. Do you have any recollection whether you had any difficulty with the friction causing the spooler to go up on the wire rope?

A. Frankly, I doubt if there were any changes, major changes, made in Perry's original model to the present day model.

Q. I am not asking you that. I am asking you the question as to whether you recall whether or not that particular spooler did ride up on the line as you went in the hole.

Mr. Joseph F. Westall: That is objected to as several times answered.

Mr. Caughey: No; it hasn't been answered.

(Testimony of A. M. Andersen.)

The Court: He may answer.

A. I would say no; it wouldn't have a tendency to ride up.

Q. (By Mr. Caughey): In other words, you don't recall it ever riding, that that particular one ever did ride, up on the line?

A. No, sir.

Q. Did you have, in addition to the hanging line that is shown at the top, from an eye at the top, another line similar to this line that is shown at the end on here? [58]

A. A short line, as more or less of a safety measure; not from the standpoint of holding it down.

Q. Wouldn't this function as a safety measure, this upper line? A. Partially.

Q. What do you mean by "partially"?

A. If you broke your drilling line, you may break that line also and you would have a double safety factor.

Q. So, then, they are both safety lines? They both function as safety lines?

A. No; I wouldn't say that they act as safety lines exactly. The top one would certainly be considered a suspending line.

Q. Isn't it also a safety line?

A. You could include that also.

Q. It functions also as a safety line, does it not?

A. I think the prime reason was suspension.

Q. I am not asking you whether the prime rea-

(Testimony of A. M. Andersen.)

son was suspension. I am asking you if it did not also function as a safety line.

A. I think it could be interpreted as such.

Q. And the lower line functioned as a safety line?  
A. That is right.

Q. So you would have two safety lines, so, if this upper one would break in addition to the side bridle, you [59] would still have another safety line down below?

A. I don't think there would be any danger from that point but there would be danger in case you broke the drilling line.

Q. If the drilling line broke——

A. As far as those side lines breaking, that happened quite often.

Q. If the drilling line broke, what effect would that have, Mr. Andersen, in so far as the spooler was concerned?

A. It would certainly throw it out in the open and you don't know what the effect of the breaking of that line may have had on it.

Q. If the line broke and the line parted and came out of the spooler, the spooler would still be held up by the weights suspended on either side, would it not, if those side lines didn't break?

A. It wouldn't be in a proper position.

Q. That may be so but it would still hold it up?

A. Perhaps.

Q. What do you mean by "perhaps"?

A. It would just depend on how heavy your weights were.

Q. If your weights were——

A. If your weights were heavy enough, you could certainly suspend it. The laws of gravity would take care of that. [60]

Q. Even if the line broke and one of these bridle lines would break and the upper suspension line would still hold, then the spooler would still hang, would it not?           A. Yes, sir.

Q. During your testimony you made some statement about some sketches or plans that were shown to you by Mr. Moss. Do you recall that testimony?

A. Yes, sir.

Q. When were they shown to you?

A. Subsequent to the time that he discussed it with me.

Q. How long subsequent to it?

A. I cannot say.

Mr. Caughey: That is all.

Mr. Joseph F. Westall: Mr. Disher.

### R. D. DISHER

a witness for the plaintiffs, being first duly sworn,  
testified as follows:

The Clerk: What is your name, please?

A. R. D. Disher.

### Direct Examination

By Mr. Joseph F. Westall:

Q. Where do you reside?           A. Long Beach.

Q. And what is the address? [61]

A. 2725 Baltic Avenue.



(Testimony of R. D. Disher.)

Q. And what is your occupation?

A. I am an oil well drilling contractor.

Q. You are of legal age, are you not?

A. Yes, sir.

Q. Do you know of the Severns Drilling Company?

A. Yes, sir.

Q. What, if any, connection or employment have you had with the Severns Drilling Company?

A. Oh, I was a tool pusher for them a while and drilling superintendent and now I am a partner with Mr. Severns in the drilling business.

Q. How long have you had training or experience in drilling oil wells?

A. 26 years.

Q. Will you please state the nature and kind of your experience during those 26 years, generally?

A. I worked as a rotary helper and derrickman and driller and tool pusher and superintendent.

Q. Are you familiar with the use and operation of line spoolers?

A. Yes, sir.

Q. How long have you had such last-mentioned experience?

A. Do you mean with line spoolers? [62]

Q. With line spoolers.

A. Oh, I would say 10 or 12 years as nearly as I can remember.

Q. I show you what purports to be an order, heretofore in evidence as Plaintiffs' Exhibit 17, dated May 4, 1937, of the Holly Oil Company, apparently, it seems, directed to Perry M. Moss, and to ship to Huntington Beach, for use on Well

(Testimony of R. D. Disher.)

7-A, one line spooler, and ask you if you can identify this document and, if so, please do so.

A. That is what I would interpret it as.

Mr. Caughey: That is objected to as not responsive and a motion is made to strike the answer. He asked him if he could identify it. He said he interpreted it as such.

The Court: That is not an answer to the question. That objection is sustained.

Q. (By Mr. Joseph F. Westall): Will you state what that document is?

A. It is an order authorizing the payment of \$75 for one line spooler. If I got a bill like that, I would expect to pay it.

Q. Are you familiar with the line spooler put out by Patterson-Ballagh prior to the grant of the Moss patent, which was granted February 20, 1940?

A. Yes, sir.

Q. Have you examined the drawings of Reed patent No. [63] 2,238,398, for a line spooler, granted April 15, 1941, which is in evidence in the Moss deposition as Exhibit 2?

A. Have I read it?

Q. And examined it?

A. No; I haven't.

Q. Will you please now briefly examine the drawings? Do you understand generally what is shown in the drawings?

A. Yes, sir.

Q. You have referred to a Patterson-Ballagh spooler. Is that what you meant by the Patterson-Ballagh spooler?

A. No, sir.

(Testimony of R. D. Disher.)

Q. The Patterson-Ballagh spooler of the Reed patent?

A. This one? It looks like the Patterson-Ballagh to me. It has the wire cables on the side, bolted together.

Q. Do you know whether or not there was any successful line spooler prior to the grant of the Moss patent in suit?

A. We had one made out of a piece of chain. It would spool the line but you couldn't keep the steel wickers out of your eyes.

Q. It threw sparks and threw off chips?

A. Yes, sir.

Q. That is the one described by Mr. Andersen in his testimony, is it?

A. It was metal against metal.

Q. And that was not very successful, was it? [64]

A. No, sir.

Q. You have referred to a line spooler which was ordered, as shown by Plaintiffs' Exhibit 16——

A. The order slip——

Mr. Caughey: Just a second. May your Honor please, I don't recall any testimony where this witness referred to any such spooler. You showed him the order slip and he said that is an order slip, and I could have read the same thing the witness did from the slip but I don't recall him testifying anything about it outside of just referring to the slip.

Mr. Joseph F. Westall: I will withdraw the question and ask this.

(Testimony of R. D. Disher.)

Q. Still referring to that order slip, do you know whether or not the Holly Oil Company received the device of the Moss patent as described in said order slip?

A. They received a Moss line spooler. I worked for the Holly Oil Company a few days then and the line spooler was on the well I was on, yes, sir.

Q. And was it used successfully?

A. Yes, sir.

Q. Do you know how long it was continued in use?

A. No. I left there and went on another job.

Q. Do you know whatever became of that line spooler after that?      A. No; I don't. [65]

\* \* \*

### J. C. BALLAGH

a witness for the plaintiffs, being first duly sworn,  
was examined and testified as follows:

The Clerk: What is your name, please?

A. J. C. Ballagh.

### Direct Examination

By Mr. Joseph F. Westall:

Q. Where do you reside?

A. 180 South Highland Avenue, Los Angeles.

Q. And what is your occupation?

A. I am in charge of the Patterson-Ballagh Division of the Byron Jackson Company.

Q. And you are an officer of the Byron Jackson Company, are you not?      A. Yes, sir.

(Testimony of J. C. Ballagh.)

Q. What is your official capacity?

A. Vice president.

Q. Where is your office located?

A. 1900 East Sixty-fifth Street.

Q. Los Angeles? A. In Los Angeles.

Q. And you were connected in an official capacity in [66] the Patterson-Ballagh Corporation before its dissolution, were you not? A. Yes, sir.

Q. What was your connection with said Patterson-Ballagh Corporation before it was dissolved?

A. I was the president.

Q. You were the president? A. Yes, sir.

Q. And you were also a director?

A. Yes, sir.

Q. And did you have any other capacity in that corporation? A. General manager.

Q. How long were you connected in any capacity with the Patterson-Ballagh Corporation before its dissolution? A. Approximately 19 years.

Q. And during that time in what capacities and when?

A. Well, I founded the company and have been its managing director ever since.

Q. And then did you continue to be an officer of the company? Were you incorporated at that time?

A. Do you mean when we started in business?

Q. Yes.

A. No; we started as a partnership for a few months and then we incorporated. [67]



(Testimony of J. C. Ballagh.)

Q. Who was your partner?

A. C. L. Patterson.

Q. How long did you continue that partnership?

Mr. Caughey: Now, may your Honor please, I don't see the purpose of this. I have no objection, if there is some pertinency, to going back 19 years in this matter.

The Court: What is your representation in that respect?

Mr. Joseph F. Westall: I simply want to show his long connection with Patterson-Ballagh Corporation and its activities from the beginning.

The Court: You may proceed.

Q. (By Mr. Joseph F. Westall): You are the James C. Ballagh who, on September 18, 1947, gave your deposition in this case, are you not, which is on file? A. Yes, sir.

Q. At the bottom of page 16 of said deposition—

The Court: Do I understand the entire deposition is now in evidence?

Mr. Caughey: No; it isn't.

The Court: The file is here showing that deposition.

Mr. Caughey: It may have been filed but it has to be offered.

Mr. Joseph F. Westall: It isn't admissible in evidence if the witness can be called and we have called the witness.

(Testimony of J. C. Ballagh.)

The Court: I just wanted to know what the situation is.

Mr. Caughey: I am glad your Honor raised it because I [68] was just going to inquire whether they were going to use the deposition and what for. If they want to ask the witness questions, I have no objection, but I don't see how he can very well refer to the deposition without it being in evidence, and he may use it then for the purpose of showing he is not testifying the same as he did. I don't see what use he can make of this in evidence. The witness is here.

\* \* \*

Q. (By Mr. Joseph F. Westall): Will you please now examine—Mr. Clark, have you got Moss deposition exhibits 10-A——

The Clerk: I think this is intended to be marked 10-e instead of E.

Mr. Caughey: I will so stipulate. [69]

Mr. Joseph F. Westall: Yes; I think we will both stipulate that is the exhibit.

Q. Will you please now examine——

The Court: What did you hand the witness?

Mr. Joseph F. Westall: Moss deposition exhibits 10a to 10n.

The Court: Inclusive?

Mr. Joseph F. Westall: Inclusive—and state whether or not you find that they are advertisements of the Patterson-Ballagh Corporation?

Mr. Caughey: I will so stipulate.

(Testimony of J. C. Ballagh.)

Mr. Joseph F. Westall: You will stipulate that they are advertisements?

Mr. Caughey: That is correct. It was so stipulated in the deposition. In order that I may be sure that they are the ones that I previously saw, if you will permit me to look at them, I can tell.

The Court: With reference to these exhibits, if you are not going to offer the deposition, should they not be identified as exhibits in the case rather than exhibits attached to the deposition?

Mr. Joseph F. Westall: We are going to offer the Moss deposition, not the Ballagh deposition, and these are identified in the Moss deposition.

Q. Still referring to the same exhibits, will you [70] please state, at the time of the dates of these various advertisements and literature if the Patterson-Ballagh Corporation or its successor Byron Jackson Company—I don't know what the latest date is.

Mr. Caughey: 1947.

Mr. Joseph F. Westall: Yes—manufactured, sold and offered for sale the devices shown in those advertisements?

A. If these are the same that were in this deposition, the answer would be yes.

Q. Yes; those are the same ones you have just examined. And you manufactured and made an offer for sale and sold these devices as shown in these various pieces of literature?

Mr. Caughey: With the understanding, Mr. Westall, as you know, that some of those cuts show

them installed in wells and Patterson-Ballagh Corporation, as you know, sold them but they were not installed when they manufactured and sold them.

Mr. Joseph F. Westall: Many of them illustrate how they are to be attached in the well.

Mr. Caughey: That may be so but your question was "manufactured and sold."

Mr. Westall: It didn't include the derrick. It included the spooler.

Mr. Caughey: That is correct. [71]

The Court: Have those been marked as exhibits?

Mr. Joseph F. Westall: In the Moss deposition. They are marked and are in evidence and, when we read the Moss deposition, they will then be offered as part of that deposition. I am just identifying them for the present and having him testify to these, which he did do in his own deposition, which he now does repeat, so that we have in evidence that they manufactured and sold those things as shown.

Q. In many of those advertisements you will see a line attached to the top of the spooler, such, for instance, as Exhibit 10-B, is there not?

A. Yes, sir.

Q. You have since the grant of the Moss patent February 20, 1940,—Patterson-Ballagh Corporation before its dissolution and since then the Byron Jackson Company have attached the line, the hanging line, to the top of the spooler, have they not?

A. Yes, sir.

Mr. Caughey: Now,—

Mr. Joseph F. Westall: He says, "Yes, sir."

(Testimony of J. C. Ballagh.)

The Court: I didn't hear the answer. You said what?

Mr. Joseph F. Westall: That they attached a line to the top of the spooler.

A. That Patterson-Ballagh did.

Mr. Joseph F. Westall: That Patterson-Ballagh [72] Corporation, before its dissolution and after the grant of this patent, in February, 1940, attached the line and since that time Byron Jackson, since the dissolution, has attached the line to the top of the cylinder.

Q. Have they not?

A. I will say yes; at the top and in the center.

The Court: I didn't hear that answer.

A. At the top and in the center.

The Court: What patent are you showing to the witness?

Mr. Joseph F. Westall: I am showing him the Moss patent, at the top.

The Court: Now?

Mr. Joseph F. Westall: Yes.

The Court: You are asking him what?

Mr. Joseph F. Westall: I am asking him if they attached it at the top as shown in the Moss patent.

A. I don't know as in the Moss patent.

Q. Well, in the hanger at the top of the spooler, as very clearly shown in the Moss patent. The hanging line is shown?

A. We hang close to the top. I won't say we hang just the same as the Moss patent but we hang close to the top.



(Testimony of J. C. Ballagh.)

Q. Instead of, as previous to the Moss patent, in the middle? [73]

A. Well, we didn't hang it in the middle previously all the time.

The Court: Pardon me, Mr. Westall. If you will step around here and inquire, we can all hear those answers better. Did everybody get the answer?

Mr. Caughey: I think I did but there is difficulty.

The Court: What is the answer?

A. The answer was we did hang them from the top prior to that time.

Q. (By Mr. Joseph F. Westall): You had a license under the Reed patent, did you not?

A. Yes, sir.

Q. I show you the Reed patent No. 2,238,398, granted April 15, 1941, Moss deposition Exhibit 2, and I point out particularly the hanging by the line 29 in the middle of the spooler at 23. As licensees under said Reed patent, you hung as shown in the Reed patent, didn't you, before the grant of the Moss patent?

Mr. Caughey: May your Honor please, the Reed patent is governed by what the claims of the patent cover. If you will refer to any of the claims——

Mr. Joseph F. Westall: The Reed patent.

Mr. Caughey: The Reed patent is governed by what the claims say.

Mr. Joseph F. Westall: The Reed patent discloses [74] certain things and shows the drawings

(Testimony of J. C. Ballagh.)

and I am simply asking him whether they hung as shown in the Reed patent.

Mr. Caughey: You are asking him as licensee whether it didn't do that. If you want to show what the patent disclosed and ask him whether it shows that hanging line in the middle, that is something else but to tie it in with them as licensee is something else, also.

Mr. Joseph F. Westall: I am simply asking whether or not, as licensee or otherwise, they used that disclosure of hanging in the center which I have pointed out.

The Court: Do you mean in the manufacture of the spooler?

Mr. Joseph F. Westall: In the manufacture.

Q. Did you do that?

A. Yes; in the manufacture; the initial guides.

Q. And you sold them as so manufactured with those hanging lines? A. Yes.

The Court: That is in the middle there?

Mr. Joseph F. Westall: In the middle.

Q. That line that I last spoke of, line 29, is a hanging line, isn't it?

The Court: To which patent are you referring?

Mr. Joseph F. Westall: I am talking about the Reed patent. [75]

Q. That is a hanging line, isn't it?

A. It is either a hanging line or a safety line. I don't know what the number shows in the specification. It is called a supporting cable.

Q. A supporting cable? A. Yes, sir.

(Testimony of J. C. Ballagh.)

Q. And you called it in your advertisements a hanging line, did you not? A. Yes, sir.

Q. In many of them? A. Yes, sir.

Q. Do you find any safety line disclosed in said Reed patent, Moss deposition Exhibit 2?

A. 29 would be a safety line.

Q. You don't see any other safety line?

The Court: Are you still looking at the Reed patent?

Mr. Joseph F. Westall: Yes; still looking at the Reed patent.

A. No; I don't see another one.

The Court: So I won't be confused, in the previous answer you said this is a hanging line and it is the same thing as a safety line, is that it?

A. Yes, sir.

The Court: On that particular early device, applying to this figure 29, is that correct? [76]

A. Yes, sir.

Q. (By Mr. Joseph F. Westall): I call your particular attention to Moss deposition Exhibit 10-J and to the drawing at the lower left-hand side, showing a line, which you labeled in your advertisement a hanging line. A. Yes, sir.

Q. That is what you generally called that line hung from the top of the spooler, did you not?

A. Yes, sir.

Q. You called it that? A. Yes, sir.

The Court: I want to know what this is so that I can look at it, just what he testified about.

Mr. Joseph F. Westall: He testified this. He

(Testimony of J. C. Ballagh.)

stated it is, as described in there, a hanging line. We had quite a lot of quibbling during the deposition as to whether it was or not.

The Court: You are now testifying about the fourth illustration, about the middle of this exhibit, Exhibit 10-J, is that correct?

Mr. Joseph F. Westall: That is correct, and comparing it with the Moss patent.

The Court: And this is the upper line here, is that it?

Mr. Joseph F. Westall: That is the upper line. Mr. Caughey, one of the objections you made on the pre-trial was [77] that one of the dates shown on these Moss exhibits was in pen and ink at the bottom and you wanted that proof.

Mr. Caughey: I will withdraw that.

Mr. Joseph F. Westall: It will be necessary for us to produce the originals to prove them.

Mr. Caughey: No.

Mr. Joseph F. Westall: You will stipulate that those pen dates in there on Moss Exhibits 10-A to 10-N are correct?

Mr. Caughey: I will stipulate that the dates on which the magazine in which they appear was published, that is, October 21st, for example—that October 21st was the date that appeared on the publication. I have checked them and I can so stipulate.

Mr. Joseph F. Westall: Yes. That will be all.

Mr. Caughey: Inasmuch as this witness was called as an adverse witness and we are going to

(Testimony of J. C. Ballagh.)

use him as a witness in chief, I won't cross-examine him at this time.

The Court: Very well.

Mr. Caughey: I will call this witness as my own witness.

Mr. Joseph F. Westall: Mr. Terry.

### J. P. TERRY

called as a witness on behalf of the plaintiffs, being first duly sworn, testified as follows:

The Clerk: What is your name, please?

A. J. P. Terry. [78]

### Direct Examination

By Mr. Joseph F. Westall:

Q. Is that J. Perry Terry?

A. J. P. is the way I usually put it.

Q. Where do you reside?

A. Huntington Beach.

Q. 603 Main Street? A. That is right.

Q. Did Mr. Moss ever apply to you for material for making a spooler? A. Yes; he did.

Q. Do you know about when that was?

A. Well, I would say it was in November, right around the 21st or the 22nd, of 1936.

Q. Of 1936? A. Yes.

Q. And did you furnish that material to him?

A. Yes; I did.

Q. And what did the material consist of?

A. I would say the pipe was 4-inch pipe the



(Testimony of J. P. Terry.)

best I could remember and I would say 3 feet or something like that long, and then I think there were some clamps; I think there were 4 or 6 clamps he took. And I think that would cover it.

Q. And you furnished that material to him?

A. Yes. [79]

Q. And do you know whether he made a spooler from that material?

A. Well, from the looks of it when he brought it back, it looked like he might have made it out of it.

Q. When did he bring it back?

A. He brought it back, I would say, in four or five days maybe; I wouldn't say exactly; maybe a week.

Q. And he made a spooler? A. Yes.

Q. And he showed it to you? A. Yes.

Q. What was your employment at that time?

A. I was production superintendent under Mr. Andersen.

Q. For the Holly Oil Company?

A. For the Holly Oil Company.

Q. And what has been your experience in the oil fields? What kind of experience have you had?

A. Well, I have had mostly well pulling and production; not very much in drilling.

Q. Did you have anything to do with the testing of that first actual spooler?

A. No; I couldn't say that I had anything to do with it.

Q. You had nothing to do with that?

(Testimony of J. P. Terry.)

A. No.

Mr. Joseph F. Westall: I believe that is all. [80]

Cross-Examination

By Mr. Caughey:

Q. Mr. Terry, as I understand your testimony, Mr. Moss brought to you, after he had secured this material, a line spooler which he had or someone else had built between the time he got the material from you and when he returned?

A. That is right.

Q. Was it assembled?

A. Yes; it was assembled something like that right there.

Q. When you say "that right there," you are talking of the spooler that is shown in this model, is that correct?

A. Yes; that is correct.

Q. It wasn't in any well or rig, was it?

A. No. I don't think it had ever been used when I saw it and I don't think it had been used for quite a while afterwards.

Q. And did it have side bridles on it like these?

A. It had the arms on it something similar to that.

Q. Did it have the weights?

A. No. It wasn't rigged up. It was just blank.

Q. Did he have any rubber inserts inside it at all or any rubber bearings?

A. Now, I wouldn't say.

(Testimony of J. P. Terry.)

Q. It might have been just a shell, is that right, just [81] the bare shell?

A. Well, he talked of rubbers there and also hardwood blocks he was going to use but I couldn't say whether he decided to use the rubber or what. But I think eventually it came out with rubber.

Q. That is what you think? A. Yes.

Q. But did you ever see it?

A. See the spooler?

Q. Afterwards, when it was in a well.

A. Oh, yes; I saw it a thousand times after it was in a well.

Q. Down at the Holly? A. Yes.

Q. And you saw it at the rig after the Holly people bought it, is that right?

A. Yes; that is right.

Q. But you are not sure, after he brought it to you the latter part of November or around in there, whether it had any rubber bearings inside or wooden blocks or what?

A. I wouldn't say because he was debating on that stuff when he was talking about it and I wouldn't say whether it had the rubber or the blocks.

Q. And it didn't have the side lines and the weights?

A. No. He just brought it there. He didn't have it [82] hooked up at that time.

Q. How do you fix that date?

A. I can very easily fix that date because on this Conrad well I got my arm broke and was off and

(Testimony of J. P. Terry.)

went to work just about that date, nine months, or later, after. I got hurt on the Conrad the 12th day of May in that year and I know when I was released and when I went back to work. That is how I can verify the dates.

Q. When did you go back to work?

A. I went back to work the 20th of November, 1936.

Q. For the Holly?

A. For the Holly and Holly Development, the two companies.

Q. On what well?

A. I wouldn't say what well because we had lots of wells.

Q. You were working on a particular well, weren't you?

A. No. We had maybe 18 to 20 wells and worked from one well to the other.

Q. And it is your recollection, a short time after you got back, that Mr. Moss contacted you?

A. Yes.

Q. And it might have been, instead of the 21st or 22nd, the 25th or 26th of November, might it?

A. No. I went back on the 20th, and I wouldn't say [83] for sure, as that is a long time, but it was a day or two after I went back to work. I know the date I went back to work. It was just a day or so after I went to work he was after the stuff.

Q. It may have been five or six days afterwards instead of one or two?

A. It might have been one or two. I couldn't say exactly.

(Testimony of J. P. Terry.)

Q. May it have been 10 days before he brought it back instead of a week, as you have testified?

A. I wouldn't say. It might have been five days or might have been a week. It was a short time, I would say.

Mr. Caughey: That is all.

Mr. Joseph F. Westall: That is all. Mr. Claude Kelley.

### CLAUDE KELLEY

called as a witness for the plaintiffs, being first duly sworn, testified as follows:

The Clerk: What is your name, please?

A. Claude Kelley or J. E. Kelley.

### Direct Examination

By Mr. Joseph F. Westall:

Q. Where do you reside, Mr. Kelley?

A. You will have to speak louder.

Q. Where do you reside?

A. In Indio, California. [84]

Q. What is your occupation at the present time?

A. Well, I am a rancher and a water well driller.

Q. How long have you been in the oil well drilling business?

A. Well, up till four years ago.

Mr. Caughey: Just a second. May your Honor please, I didn't recall he was an oil well driller. He said he was a water well driller, a water well driller at present.



(Testimony of Claude Kelley.)

Q. (By Mr. Joseph F. Westall): Were you ever engaged in the business of developing or producing oil?

A. Yes, sir. I went to work in 1908, and quit four years ago. I was in it continuously.

Q. What kind of experience did you have during that time? What did you do?

A. Well, I guess all of it, drilling, roughnecking and supervising.

Q. Were you superintendent at any time?

A. That is right; pushing tools, they call it; foreman.

Q. Did you ever have anything to do with Republic Petroleum Well No. 2?           A. I did.

Q. Do you know whether a line spooler was used on that well?           A. I do. [85]

Q. Whose line spooler was put on that well?

A. Well, I suppose it was Moss', Perry Moss. He was the one that brought it out.

Q. I show you the drawings of the Moss patent in suit No. 2,190,880, granted February 20, 1940, and ask you if you can examine those drawings briefly and if you understand what the construction means. You don't need to read the patent. Just look at the drawings.           A. Yes, sir.

Q. Did the line spooler that was put on Republic Well No. 2, which you say you believe was Moss' spooler—was it like that shown in the Moss patent?

A. Yes, sir.

Q. It was?           A. Yes, sir.

Q. Do you know when it was put on that well?

(Testimony of Claude Kelley.)

A. The date?

Q. Yes.

A. No; I don't. It was in, I should say, the latter part or the first part of August, 1937.

Q. You haven't anything to refresh your recollection as to a more approximate date, have you? Was it as early as August?

A. No; I don't. It was——

Q. I show you a folder of what purports to be drillers' [86] daily reports, Republican Petroleum Co. lease, El Segundo, Well No. 2, and purporting to be drillers' reports——

The Court: Is that Republican or Republic?

Mr. Joseph F. Westall: Republic—drillers' reports from July 18, 1937, to August 23, 1937, and ask you if those in any way refresh your recollection as to the date of purchase and use of the Moss spooler.

A. I remember the well and I remember the spooler but I didn't remember the dates exactly. I knew it was in July or August or I thought that.

Q. You think it was in July or August?

A. Yes.

Q. Are you positive it was in July or August?

A. Yes; that is right.

Mr. Joseph F. Westall: We offer the drillers' daily reports shown to the witness in evidence as plaintiffs' exhibit next in order.

Mr. Caughey: For what purpose?

Mr. Joseph F. Westall: Well, we will withdraw the offer. It was only for the purpose of giving

(Testimony of Claude Kelley.)

the witness a chance to refresh his recollection if he needed it.

Q. Now, do you know whether that spooler was used on Republic Well No. 2? A. Yes, sir.

Q. And was it successful? [87]

A. Yes, sir.

Q. And did it have a hanging line on it?

A. That is right.

Q. And from what part of the spooler was the hanging line suspended? A. From the top.

Q. On the top? A. Yes, sir.

Q. Are you familiar with the spoolers put out by the Patterson-Ballagh Corporation before its dissolution? A. No; I am not.

Q. Where the hanging line was down in the middle? A. I have seen them; yes.

Q. You have seen them? A. Yes.

Q. Can you say whether or not the hanging in the middle that way makes a successful spooler or should the hanging be from the top?

Mr. Caughey: That question is objected to as no proper foundation is laid. The witness has stated that he saw them but he didn't know anything about them other than seeing them, unless you can lay a foundation.

The Court: You, first, should find out whether he knows.

Q. (By Mr. Joseph F. Westall): Do you know whether or [88] not a spooler having a hanging line over the center would be a practical form of spooler?

(Testimony of Claude Kelley.)

A. Well, I shouldn't say but, from my experience, I would say no.

Q. You never had any experience with that?

A. No.

Mr. Joseph F. Westall: I believe that is all.

### Cross-Examination

By Mr. Caughey:

Q. You say, Mr. Kelley, that you never had any experience with the Patterson-Ballagh line spooler?

A. Not to my memory or knowledge; I don't remember it. Perhaps I worked on rigs sometimes where it was but I don't remember.

Q. Then, on what do you base your statement that a line hung in the middle, in your opinion, wouldn't be practical?

A. Well, I will tell you. You understand a line spooler is hanging about 20 feet above the drum, don't you?

Q. Approximately.

A. And your derricks are 136 to 178 foot and you have got all that line above you. You are pulling that block up through the derrick at a tremendous speed and that line is traveling always; and, when you kick your clutch off, your line is more or less floating above that spooler. You know, [89] your line is absolutely loose. If you touch your brake a little bit, you draw slack in your lines.

Q. What line are you referring to as loose?

(Testimony of Claude Kelley.)

A. The drilling line. And then it would, naturally, fall over, I would say.

Q. What would you say would fall over?

A. The line spooler.

Q. It is threaded on the wire line, isn't it?

A. Your line is slack, too.

Q. How could it fall over?

A. If it was hung in the middle, there is nothing to keep it from falling over that I see.

Q. As soon as you get your line tight again, it is in the proper position, isn't it?

A. That is right.

The Court: It would fall over if what was present?

A. Well, when you start to slow your blocks down, you are going up at a terrible speed, and you shut your motors off and that line is almost slack. You can see it floating in the rig above the line spooler.

Q. But what would keep it from falling over?

A. When the line tightens up again, it straightens up again, but I would say, if it is hung from the top, the line couldn't fall over. I have never seen them the other way. That would be my idea of it. [90]

Q. (By Mr. Caughey): As a practical oil man, you would know it would be better to hang it from the top, wouldn't you?

A. That is right; I would say that.

Mr. Caughey: That is all.

Mr. Joseph F. Westall: That is all. Mr. Welch.



**E. B. WELCH**

called as a witness on behalf of the plaintiffs, being first duly sworn, testified as follows:

The Clerk: What is your name, please?

A. E. B. Welch.

**Direct Examination**

By Mr. Joseph F. Westall:

Q. You reside at 7823 East Rose Avenue, Bellflower, California? A. Yes, sir.

Q. What is your business or occupation?

A. Right now I am working on production; otherwise, a pumper.

Q. You are working for what company?

A. E. B. Hall & Company of Wilmington.

Q. How long have you been experienced in oil well drilling or other matters pertaining to the development and production of oil?

A. Since 1922, in California. [91]

Q. And what has been the nature of your experience during that time?

A. Roughnecking and drilling; drilling quite a few years.

Q. I don't know whether his Honor knows what a roughneck is.

The Court: I think I have seen some in my life.

A. It is an oil worker.

The Court: Yes; I know what you mean.

Q. (By Mr. Joseph F. Westall): Did you ever see a line spooler made by Mr. Moss?

A. Yes.

(Testimony of E. B. Welch.)

Q. And did you see such a line spooler at any time on Well No. 2 of the Republic Petroleum Company at El Segundo? A. Yes.

Q. And do you know when you saw that or can you fix the time by refreshing your recollection by an examination of the drillers' daily reports of that well? A. Yes.

Q. Do you know when—the log, I believe, starts or says the well was started July 18, 1937, and worked on until August 23, 1937. Is that correct?

A. Yes, sir.

Q. Do you know during that time when it was that this first spooler that you saw on that well was used? [92]

A. I couldn't specify the exact date that I saw that spooler but we started to redrill there on the 18th and some time along there that spooler was put up.

Q. The 18th of July? A. July, 1937.

Q. Do you know whether that Moss spooler operated successfully? A. Very much so.

Q. And did it have a hanging line?

A. Yes, sir.

Q. How was the spooler suspended by the hanging line?

A. From the top hanger, up the derrick about 45 or 50 feet.

Q. You say from the top hanger. Do you mean from the top of the spooler?

A. From the top of the spooler, where that ring is.

(Testimony of E. B. Welch.)

Q. Did you ever see a Patterson-Ballagh spooler? A. Yes.

Q. Do you know how prior to that time they hung their spooler?

Mr. Caughey: May your Honor please, he didn't specify when he saw it. The question is prior to that time. Ask him when he saw the Patterson-Ballagh.

Mr. Joseph F. Westall: I withdraw the question.

Q. You say you saw a Patterson-Ballagh spooler at some [93] time.

A. Well, it was along about that time because the company I worked for had one of those.

Q. When you say about that time, that was between July 18, 1937, and August 23, 1937, that you saw it? A. Yes, sir.

Q. Did that have a hanging line on it?

A. Yes.

Q. Where was that hanging line attached?

A. In the center.

Q. In the center of the spooler?

A. Yes, sir.

Q. How many eyes did it have for suspension?

A. One.

Q. And that was in the center? A. Yes.

Mr. Joseph F. Westall: I believe that is all.

#### Cross-Examination

By Mr. Caughey:

Q. Pardon me. I didn't get your name.

A. E. B. Welch.

(Testimony of E. B. Welch.)

Q. How long have you been working for Hall?

A. Going on six years.

Q. Are you working down at the Harbor now?

A. Yes. [94]

Q. And you were working for the Republic, you say, in 1937?      A. Yes.

Q. What was your position there at the Republic?      A. Driller.

Q. On that Republic No. 2?      A. Yes.

Q. And you stayed on that well until it was drilled?      A. Yes.

Q. You said something about another well of the Republic, on which you saw a Patterson-Ballagh spooler. You say it was about that time. Have you any recollection on that?

A. No, because we were working on several wells there and moving from one to the other and redrilling, and I don't know when it was put up or anything about it. I know when I came back one time it was hanging in one of the derricks. I don't know when it was installed. And that was a Patterson-Ballagh spooler.

Q. It may have been after you completed the Republic No. 2?      A. It could have been.

Q. You say that was hung in the middle?

A. Yes.

Q. Was a line attached to it at the time?

A. Oh, yes; we kept a line attached to it in the center. [95] We always kept a line otherwise for a hanger and a safety line regardless and the place to tie onto that spooler was in the middle.

(Testimony of E. B. Welch.)

Q. Did you only have one line on that spooler?

A. As near as I can look back, we only had one line on it.

Q. Did you have more than one line on the Moss spooler?           A. I can't recall.

Q. But you do recall the hanging line?

A. Yes.

Q. And you do recall definitely it was hung at the top?           A. Yes.

Q. Do you recall what the thickness of that Moss spooler was? When I say "thickness," I mean the outside dimensions all the way through.

A. Oh, I guess the o.d. of it was around 3 or 4 inches.

Q. Where was the eye to which the line was hung. Was it on the outside of the o.d., that is, was it beyond the outside periphery of the shell?

A. It was on the shell.

Q. Like shown there?

A. Right on the top. [96]

Q. So it would be about five or six inches from the wire line, the place where it was hung?

A. No; it wouldn't be that far. It was hung on the metal casing top, an inch or so down on that.

Q. How far would you say?

A. There is a good diagram of it right there; just like that right there.

Q. But this isn't to scale.

A. Well, that is very close to it.

Q. How long was that spooler?



(Testimony of E. B. Welch.)

A. I would say 30 inches. I never measured it. That is just offhand.

Q. It might have been 40, as far as you know?

A. No; it wasn't that far.

Q. Did you have anything to do with hanging it?  
A. No.

Q. You just saw it up in the well?

A. No; I operated it; I worked there when they had that spooler there.

Q. It was up there when you saw it?

A. I can't recall of helping hang it up or putting it up. It might have been put up when I was off shift. That is quite a while back.

Q. But you do recall seeing it up there in the air, hanging? [97]  
A. Oh, yes. I operated it.

Q. And that was about 20 feet up or what, or 30 feet?

A. I would say 20 feet from the floor.

Q. In your best judgment of the length, though, it was approximately 30 inches?

A. Right offhand, that is my best judgment.

Q. Do you know how many rubber bearings it had inside?  
A. It had three.

Q. How do you know that?

A. Well, because sometimes we had to put in new ones and take it apart.

Q. Did you put in some new ones?

A. No, but we would have to take a line out to change to a new line, and we would open up the spooler and, when you did that, you could see what was inside of it.

(Testimony of E. B. Welch.)

Q. In your recollection, it had three rubber bearings?

A. Three rubber bearings, the top, center and the end.

Q. How much distance was there in between each one?

A. Well, I don't know. You will have to figure that out. I said the whole thing. Anyway, it was 30 inches and the center one was right in the center of it. I can't figure out how long the rubber bearings were.

Q. How long was each rubber bearing?

A. Oh, five inches.

Q. Are you guessing or is this what you remember? [98]

A. I never measured it. I am just telling you what I think it would be.

Q. That is what you think it would be?

A. Yes.

Q. You are a practical oil man in the field, are you not, Mr. Welch?

A. Yes, sir.

Q. You have had a lot of experience?

A. I have.

Q. It would be apparent to you it would be better to hang a line at the top up to the derrick than to put it in the middle and hook it up the same way, wouldn't it?

A. It would be better at the top.

Q. That would be apparent to you?

A. Yes.

Q. As a practical man in the field?

A. That is what I would say.

Mr. Caughey: That is all.

The Court: We will take a recess at this time of 10 minutes.

(Short recess.)

Mr. Joseph F. Westall: Mr. Heard.

R. J. HEARD

called as a witness on behalf of the plaintiffs, being first duly sworn, testified as follows: [99]

The Clerk: State your name, please.

A. R. J. Heard.

Direct Examination

By Mr. Joseph F. Westall:

Q. Mr. Heard, where do you reside?

A. At Artesia, New Mexico.

Q. You came out here for one reason, to testify, is that correct?

A. I came out here on business but it just happened to be——

Q. It happened to be convenient to testify?

A. That is right.

Q. What is your occupation?

A. General superintendent for the Grayburg Oil Company at Artesia, New Mexico.

Q. How long have you had experience in oil well development or production?

A. Since 1919.

Q. And what has generally been your experience during that time, what capacities?

(Testimony of R. J. Heard.)

A. Rotary helper, driller, tool pusher and superintendent.

Q. Are you familiar with the Moss line spooler as the same was used at the El Segundo Well, Republic Petroleum Well No. 2? [100]

A. Yes, sir.

Q. In order to refresh your recollection, I place before you the drillers' daily reports—well, no; those are the wrong ones—of said Well No. 2, which appears to be from July 18, 1937, to August 23, 1937, and ask you to state when it was that you saw that Moss line spooler.

A. The only way I would remember it is just by looking at the reports, which would be January 18, 1937, to August 23, 1937.

Q. July 18, 1937, to August 23, 1937?

A. Yes, sir.

Q. It was some time between those dates?

A. Yes, sir.

Q. What was your capacity as connected with the Republic Petroleum Well No. 2 at that time?

A. I was the superintendent at that time.

Q. Can you state how that Moss spooler was hung in the derrick?

A. Yes, sir; from the top.

Q. From the top? A. Yes, sir.

Q. Of the shell? A. Yes, sir.

Q. And the other end was connected to one of the girts in the derrick, is that correct? [101]

A. I couldn't say that for sure; I don't remember that particular.

(Testimony of R. J. Heard.)

Q. It was where it was attached to the derrick, at the upper end? A. Oh, yes; that is right.

Q. Had you ever before that time seen a spooler that was hung from the top like the Moss spooler?

A. No.

Q. Was there any advantage in it being hung from the top?

A. Well, we all figured it was and it seemed to operate better.

Q. And what function did it perform by being hung at the top?

A. Well, one advantage was, when you changed a line through it, it wouldn't turn.

Q. It kept it balanced? A. That is right.

Q. And what did it have to do with the drilling line by being hung from the top?

A. Well, you fastened it in the center of the derrick up above and it seemed to ride back and forth better.

Q. Did you ever see a Patterson-Ballagh spooler? A. Yes, sir.

Q. Do you know how that was hung? [102]

A. Well, it was hung from the middle. What makes me remember it so well is we used to take the line out of the spooler to change lines and it would always turn sideways and you would have to get up in the derrick and pull the top of it back in order to get your line through.

Q. As soon as you loosened that, it would tip over?



(Testimony of R. J. Heard.)

A. Yes; whenever you would take your line out, it would turn crossways.

Q. Do you know when it was that you saw that Patterson-Ballagh spooler?

A. We had one at El Segundo at that time.

Q. When was that?

A. It was just about the same time.

Q. How did you happen to have your experience with the Moss spooler at that time?

A. Well, Mr. Moss came down to our No. 8 well when we were working there and showed me this spooler before we put it up on the No. 2 well.

Q. And did you purchase it?

A. No; we didn't.

Q. Did you try it?                   A. Yes; we tried it out.

Q. And did it work successfully?

A. It sure did.

Q. How does it happen that you didn't buy it? [103]

Q. Well, at that time that was the last well we drilled in El Segundo and we shut down and didn't have any more rigs running for a year or so. In fact, we sold off most of our equipment.

Mr. Joseph F. Westall: You may cross-examine.

### Cross-Examination

By Mr. Caughey:

Q. Mr. Heard, you testified, I believe, that, when you had the hanging line at the top, it would ride better back and forth?                   A. That is right.

(Testimony of R. J. Heard.)

Mr. Joseph F. Westall: May I interrupt just a minute? We have had a number of witnesses who have completed their testimony and we will not need them any more and, unless counsel needs some of them, I would suggest that they be excused.

Mr. Caughey: That is perfectly satisfactory.

Mr. Joseph F. Westall: All witnesses, then, who have heretofore testified, will be excused.

The Court: If they wish to leave, they may do so, those who have already testified.

Mr. Caughey: May I have the question and the answer?

(Record read.)

Q. (By Mr. Caughey): What do you mean by "ride better back and forth"? [104]

A. With reference to this model, for example, you see, when it is hung from the top, it hangs straight with your line and, if it is hung in the middle, it more or less throws your spooler in a bind on your line.

Q. That was apparent to you as a practical man, that it would be better to hang it from the top?

A. After he showed us all of that, after he showed us, I don't see why I didn't think of it, but I didn't.

Q. It was apparent to you as soon as he showed it to you?      A. Yes; it sure was.

Q. You say the Patterson-Ballagh spooler that you saw was hung in the middle?      A. Yes, sir.

(Testimony of R. J. Heard.)

Q. And you said, when the line got slack, it would have a tendency to fall over?

A. You see, in changing lines, you have to take the line off of your drum and pull it out of the spooler and, when we would, it would, naturally, turn sideways and lay down like that and, when we got ready to put the line back in, you would have to go up and pull the line back there, and this line you didn't have to pull it back.

Q. In other words, as soon as the line was taken out there, it would just hang and be suspended by the side lines?

A. No; your hanging line would hold it back but it [105] would turn.

Q. So there won't be any confusion, I will start again. Your testimony is that, when the line was in the middle of Patterson-Ballagh, when you took the wire line out of the hole, then, although the spooler itself might be suspended to a certain extent by the side lines, nevertheless, it would have a tendency, because of this line, to tip over and go horizontally? A. That is right.

Q. Whereas, if you have it suspended from the top, that wouldn't happen? A. That is right.

Q. And you noticed that the first time you took the line out, didn't you?

A. Yes; and we had lots of complaints from the crews just on that account. Of course, it doesn't take much to get complaints from the crews but that was one of them.

Q. Was that the only Patterson-Ballagh spooler that you recall having anything to do with?

(Testimony of R. J. Heard.)

A. No; I used one in New Mexico here a year ago.

Q. And that was hung at the top, was it?

A. It was hung at the top.

Q. But in the interim you didn't have anything to do with any line spoolers, in between?

A. No, because I have been down in that country and we [106] haven't been using them.

Q. Did you have anything subsequent to do with any line spooler from the time you had anything to do with it on Republic No. 2?

A. No; I sure haven't.

Q. What was the name of the concern you said you were with?

A. Grayburg Oil Company of Artesia, New Mexico, which the Republic Petroleum Company owns. You see, I am still with the Republic Oil Company.

The Court: When that line was slack, would that whole spooler fall?

Mr. Caughey: Yes. I think I can illustrate it very readily. If you have something or hold something in the middle and have a line up here, it will, naturally, fall over horizontally when there isn't anything otherwise to hold it up.

The Court: If the line was slack—or when would the line get slack?

Mr. Caughey: The line might get slack when it was a loose line. There wouldn't be anything through the spooler at all if you take the line out of the hole in which——

(Testimony of R. J. Heard.)

The Court: I understand, but, when the line was in the spooler and the line was slack——

Mr. Caughey: It might be momentarily [107] slack.

The Witness: We have roller-bearing blocks and cranks and, in order to speed, you would go up and put your brake on your blocks, keep going on up, and it will throw slack. I have seen them go out of the derrick three or four feet.

The Court: Saw what go out?

A. The line, the fast line that comes down through the spool.

Q. (By Mr. Caughey): There would be some cases where you would have momentary slack but it wouldn't last very long?

A. No; it wouldn't.

The Court: That might occur where there was a sudden stopping of the line, would it?

A. That is right.

The Court: And would that same situation obtain whether it was hung at the center or at the top?

A. The slack would, sure, but, if it is hung from the top, it wouldn't tip over.

The Court: That is to say, the spooler wouldn't tip over?

A. The spooler wouldn't tip over but, if hung from the middle, it naturally, would tip over. That is my opinion.

Q. (By Mr. Caughey): If the spooler did tip



(Testimony of R. J. Heard.)

over, what harm would that do? What would be the harm of that?

A. Naturally, when it came back down, straightened, it might go back over and hit a girder or something like that. [108] In other words, when that straightens up, it could go back and hit a girder or something like that.

Q. Did you ever see that happen?

A. Well, I don't know as I ever did.

The Court: This would be suspended in the center of the derrick about, wouldn't it, or not?

A. No; it would be in the center of the derrick this way. It would be pretty close to the girts where the line is.

The Court: Towards the rear?

A. Yes, sir.

Mr. Caughey: That is all.

### Redirect Examination

By Mr. Joseph F. Westall:

Q. Just one question. At the time you put in and used that Moss spooler and you say Mr. Moss explained it to you before you tried it, did he state that he had, previous to that time, ever tried it out and used it or tested it?

Mr. Caughey: That is objected to as calling for hearsay testimony and a self-serving declaration.

The Court: I think that would be self-serving, what he stated to this witness.

Mr. Joseph F. Westall: That may be so. I will withdraw the question. I believe that is all.

(Testimony of R. J. Heard.)

A. Is that all? [109]

Mr. Joseph F. Westall: That will be all. Mr. Horan.

B. A. HORAN

called as a witness on behalf of the plaintiffs, being first duly sworn, testified as follows:

The Clerk: State your name, please.

A. B. A. Horan.

Direct Examination

By Mr. Joseph F. Westall:

Q. Your first name is Barney?

A. Barney.

Q. Where do you reside?

A. Fullerton; 113 West Brookdale Street.

Q. What is your business or occupation?

A. Well, oil worker and driller at the present time.

Q. How long have you been engaged in either development or production of oil wells?

A. I have been in it better than 20 years.

Q. During that time, what has been the nature of your experience?

A. Roughneck and drilling and pushing tools.

Q. Did you ever see a line spooler on Holly Oil Company No. 7-A Well? A. Yes.

Q. Did you have anything to do with the working of it?

A. I worked there as a roughneck. [110]

Q. Do you know whose line spooler that was?

(Testimony of B. A. Horan.)

A. Yes; it was Moss' spooler. The boss told me it belonged to Mr. Moss. The driller there at that time told me that.

Q. Do you know how it was suspended in the derrick, the Moss spooler that you are speaking of?

A. The Moss spooler was suspended from the top of the derrick, 40 feet up.

Q. Had you ever seen that kind of a suspension by the spooler in a derrick before?

A. No, sir.

Q. Had you ever seen any of Patterson-Ballagh's spoolers?

A. Yes, sir; I had the opportunity of using it on a well.

Q. And can you state when you first saw one of the Patterson-Ballagh spoolers?

A. On this particular well it was the last of 1938.

Q. And do you know how that spooler was hung?

A. Yes; it was suspended from the middle, a center hang.

Q. Then you saw other spoolers of Patterson-Ballagh since that time, since 1940?

A. Yes, sir; we had in South America 15 complete sets.

Q. You spent some time in South [111] America?

A. Yes.

Q. For whom were you working at that time?

A. The International Petroleum.

Q. How long were you in South America?

(Testimony of B. A. Horan.)

A. Two years and a half.

Q. Did you see the operation of those spoolers there? A. Yes; we had them on the rig.

Q. And those were spoolers that were all hung, Patterson-Ballagh spoolers, from the top?

A. Yes, sir.

Q. Do you know whether or not they now hang any of those spoolers from the center instead of the top?

A. I believe they are all a new design; from the top.

Mr. Joseph F. Westall: I believe that is all.

### Cross-Examination

By Mr. Caughey:

Q. What well was it, Mr. Horan, that you saw this Patterson-Ballagh spooler on, that was hung from the middle?

A. At that time I was drilling for the Bartholomew Corporation.

Q. Where? A. Brea.

Q. At what time?

A. In the last of 1938; Well No. 5.

Q. Are you sure that that was hung from the middle? [112]

A. It was, sir; it had both from the inside, the first style that was made.

Q. Was that a cast spooler? Was it a casting?

A. I won't say whether it was casted or not. It was bolted.

(Testimony of B. A. Horan.)

Q. What is your recollection?

A. I believe it was casted.

Q. You said it was bolted. Do you mean by that it wasn't hinged?

A. Flanged; two pieces.

Q. It wasn't hinged?

A. No, sir.

Q. Did it have two eyes at the top, with bridles at——

A. There were no eyes, none whatsoever, at the top.

Q. Even side eyes?

A. Side arms—they had wire line for arms at the top.

Q. How were they attached to this spooler?

A. There was an eye at the side about, I should judge, six or eight inches from the top to the bottom, with an eye on each side and a wire line in it.

Q. About six or eight inches down, is that correct?

A. On the sides; your arms, with an eye in the middle, in the back, to hang from.

Q. Was only one eye on it? [113]

A. Yes, sir.

Q. Not two?

A. One.

Q. And that one eye was in the middle?

A. In the back.

The Court: Where would that be on that?

Mr. Caughey: About right there. Is that correct?

A. It would be on the back side.

Q. About right there?

A. Yes, sir.



(Testimony of B. A. Horan.)

Q. Are you sure there weren't any eyes at the top?

A. No, sir; because, when the line was taken out, it turned over flat.

Q. And no eyes on the other side?

A. No, sir.

The Court: Just one eye or more than one eye?

Mr. Caughey: He said only one eye.

A. Just one eye.

Mr. Caughey: That is all.

Mr. Joseph F. Westall: Now, if the court please, the next we have in order is the reading of the deposition of Mr. Moss. I have a certificate here from the physicians who are attending him showing that he is utterly unable to attend and give testimony in this case. [114]

The Court: Is there any objection?

Mr. Joseph F. Westall: I would like to file it and offer it in evidence.

The Court: Do you offer the entire deposition in evidence?

Mr. Caughey: It will have to be read, your Honor, as there are certain objections.

Mr. Joseph F. Westall: We offer this in evidence as the next exhibit.

Mr. Caughey: I won't raise any question at all as to Mr. Moss being unable to be present.

Mr. Joseph F. Westall: Then, if you will stipulate that the deposition may be read——

Mr. Caughey: That is entirely satisfactory.

Mr. Joseph F. Westall: I don't believe I need

to read the introductory part but it is a deposition taken on Thursday, September 18, 1947, at 10:00 a.m., before a notary public in this County, and the appearances of counsel are the same as in this case at the present time.

PERRY M. MOSS

“Perry M. Moss, the plaintiff herein,—” at that time he was the sole plaintiff—“produced as a witness on his own behalf, being first duly sworn on his oath, testified as follows:

“Direct Examination

“By Mr. Westall:

“Q. Please state your name, residence [115] and occupation.

“A. Perry M. Moss, 296 Kennebeck, Long Beach; oil worker.

“Q. Long Beach?           A. Long Beach.

“Q. You are of legal age, are you not?

“A. Yes, sir.

“Q. You are the plaintiff in the action in which these depositions are being taken, are you not?

“A. Yes.

“Q. The original complaint in the action in which your deposition is being taken was filed July 18, 1946. Will you explain, please, why you did not file it before that date?

“A. I got my patent February 20, 1940.

“Q. That is when it was granted?

“A. When it was granted.

(Deposition of Perry M. Moss.)

“Q. Yes.

“A. And in March, 1940, I turned my patent over to Carl E. Cameron, Long Beach attorney.

“Q. Yes; what time in March?

“A. Well, it was along the first of March, and he notified Patterson-Ballagh Corporation the 14th of April, 1940.” [116]

\* \* \*

Mr. Joseph F. Westall: “Mr. Westall: You can proceed with the answer.

“A. They notified the Patterson-Ballagh Corporation April 14, 1940, as infringing. [117]

\* \* \*

“Q. (By Mr. Westall): I wish you would state what your condition of health is at the present time.

“A. I am in bed at the present time, under doctor's care. I am up here against his protests.”

Now, right here, there were a few little typographical errors and I noted them in my copy as corrected. The next sentence reads, “He objected to my coming. I will never get any better as long as I live, so I had to do it. I am in very poor health. The bottom part of my lungs is plugged. I only get about sixty per cent of the air I should get. Therefore, I am very, very short of breath.

“Q. You are the patentee of United States Letters Patent No. 2190880, charged to be infringed in this action, are you not? A. Yes.

(Deposition of Perry M. Moss.)

“Q. What has been your training or experience in the oil fields?

“A. I am a practical man, with thirty-three years' experience, as a practical oil man. [118]

“Q. Have you ever had any particular special experience with line spoolers such as involved in this case?

“A. Yes, I know the line spoolers thoroughly.

“Q. And how long have you given your attention to understanding the line spooler and knowing its operation?

“A. Since April the 5th, 1937.

“Q. Have you read and do you understand the specifications, drawings and claims of said Letters Patent charged to be infringed, No. 2,190,880, granted to you February 20, 1940, a copy of the specifications and drawings of which I now show you and which I request the notary to mark for identification as Moss Deposition Exhibit 1.”

And then the document referred to was marked by the notary for identification as Moss Exhibit 1.

“The Witness: Read the question again, please.”

The question was read.

“The Witness: Yes, I understand what the patent is.

“Q. (By Mr. Westall): Will you explain briefly the nature of the device of said last-mentioned patent in suit in a general way and its function and mode of operation?

“A. It is a piece of four-inch pipe, four feet long, milled in half, and each side—and it's hinged

(Deposition of Perry M. Moss.)

together so it can be hung in the derrick, and while it is hanging in the derrick the bearings replace very easily with very little trouble, and on each side it has rigid arms. Each rigid arm [119] has a rope attached, going out to the side of the derrick, through a pulley, and that rope is attached to a weight, and the line the spooler is hung thirty or forty feet in the derrick above the spooler over the center of the drum.

“Q. You mean the drum upon which it is hung?”

The correction at the end of the deposition is:

“Q. You mean the drum upon which the drilling line is spooled?”

“A. Yes. And on top of the spooler it has an eye welded for a hanging line, and one end of the hanging line is attached to the spooler on top and the other end tied in the derrick to hold the spooler in place at all times.

“Q. And at what angle will that spooler hang when it is so supported in the derrick by the hanging line?”

“A. Well, like it is made, you hang it from the top, it hangs just as near the drilling line as you can get it, within three or four degrees, it is the same as the drilling line, and being hung from the top takes the friction off the bottom and top of your spooler to eliminate the wear on your bearings.

“Q. Have you ever granted any rights, that is, assigned, in whole or in part, transferred, encum-



(Deposition of Perry M. Moss.)

bered or granted any license under said Letters Patent in suit No. 2,190,880?      A. No.

“Q. Are you still the sole owner of the Letters Patent [120] in suit heretofore mentioned?

“A. Yes.

“Q. Have you ever manufactured or caused to be manufactured the devices of your said patent in suit No. 2,190,880?      A. Yes.

“Q. When did you so make or cause to be made the device of your said patent in suit?

“A. You mean by device one I made?

“Q. Yes.

“A. I made the first line spooler in 1936. I started to make it in 1936, in November, the 23rd, and I completed it within three days.

“Q. Please state whether or not you marked any such devices made or caused to be made by you with any patent marking?      A. Yes.”

The Court: Pardon me just a moment. Did you read that correctly?

Mr. Caughey: As far as I am concerned, with the corrections as indicated as we go along, it will be satisfactory that the reporter copy the deposition as it appears. I appreciate that as you go along you may drop a word now and then.

Mr. Joseph F. Westall: The reporter can put it in the record the way it appears here. [121]

\* \* \*

“Q. Please state whether or not you marked any such devices made or caused to be made by you with any patent marking?      A. Yes.

(Deposition of Perry M. Moss.)

“Q. What patent marking did you place on any of the devices made or caused to be made by you under said Letters Patent in suit 2,190,880, and how did you place such notice?

“Mr. Caughey: Just a second. Are you referring to the time prior to or subsequent to the issuance of the patent? Otherwise, objection is made.

“Mr. Westall: Well, I am referring to the first ones before the patent is granted now.

“The Witness: No, I didn’t mark the first ones I built.” [122]

\* \* \*

“Q. (By Mr. Westall): Well, what patent marking did you place on any of the devices made or caused to be made by you under said Letters Patent, that is, after the grant of the patent in suit, and how did you place such notice?

“Mr. Caughey: Just a second. That is objected to on the ground that there is no evidence in the record that there has been any manufacture subsequent to the issuance of the patent, and assuming facts not in evidence.

“Mr. Westall: I will withdraw that question.

“Q. After the grant of your Letters Patent in suit, did you make or cause to be made under said Letters Patent in suit 2,190,880 any of said devices?

“A. Yes.

“Q. And when did you make the first of those devices after the grant of your said Letters Patent in suit?

(Deposition of Perry M. Moss.)

“A. You mean after I got my patent?

“Q. Yes.

“A. Well, I was making them at the time I got my patent and I never did stop making them.

“Q. Well, after you got your patent, you made at least one, didn't you?      A. Oh, yes. [123]

“Q. Please state whether you placed any marking on said device which you made after you got your patent?      A. Yes.

“Q. How did you so mark and what was said mark?

“A. My patent number is casted right on my hinge.

“Q. Patent No. 2,190,880?

“A. That is right.

“Q. Immediately after you got your patent?

“A. That is right.

“Q. Then after that did you mark or cause to be marked as you have just described all devices made under your said patent in suit?

“A. Yes, I did.”

I don't know whether the court understands but that is constructive notice of the grant and issuance of the patent.

Proceeding with line 17, “Q. With that patent marking ‘Patent’ with the number of the patent?

“A. Yes.

“Q. Have you in your possession and can you produce any plate or stamp or die showing the marking you placed or caused to be placed on such

(Deposition of Perry M. Moss.)

devices made under your Letters Patent in suit after the grant, of course?      A. Yes——”

I don't know what that “of course” means.

“A. Yes, I have it right on my hinge pattern (witness producing an [124] article).

“Mr. Westall: Before we proceed with that, however, we heretofore had the patent in suit marked for identification as Moss Deposition Exhibit 1. I now offer that patent in evidence as Moss Deposition Exhibit No. 1.”

We now offer the patent in evidence as that number.

Mr. Caughey: No objection.

The Court: It may be received.

The Clerk: Plaintiffs' Exhibit 1 in evidence.

Mr. Joseph F. Westall: “Q. In answer to the last question, you produced a pattern made of wood and with the raised letters in it ‘Patent No. 2,190,-880.’ Please state whether or not that represents the pattern of the stamp that you have placed upon devices manufactured by you after the grant of your Letters Patent as you have heretofore described.

“A. Yes.

“Mr. Westall: We offer in evidence as Moss Deposition Exhibit 1A the pattern just identified by the witness.

“(The notary marked the item above referred to as Moss Deposition Exhibit 1A.)”

Which we now offer in evidence as Plaintiffs' Exhibit 1-A.

The Court: Is there any objection?

(Deposition of Perry M. Moss.)

Mr. Caughey: No objection.

The Court: It may be received. [125]

The Clerk: Plaintiffs' Exhibit 1-A in evidence.

"Q. (By Mr. Joseph F. Westall): Were any of said devices manufactured or sold or distributed by you, with your permission, not so marked 'Patent No. 2,190,880,' as you have described?

"A. No.

"Mr. Caughey: If it is subsequent to the issuance of the patent, I have no objection.

"Mr. Westall: Read the question, Mr. Reporter.

"(The reporter read the pending question.)

"Q. By your last answer, do you mean after the grant of the patent when you so marked?

"A. Yes.

"Q. When did you first notify defendant in this case of the grant and issuance of your patent and protest against infringement of your said patent in suit by defendant? A. April 14, 1940.

"Q. Was such notification to which you have just referred in writing or was it oral?

"A. In writing.

"Q. In what did said notice in writing consist?

"A. Notified the Patterson-Ballagh Corporation as infringing.

"Mr. Caughey: Just a minute. That is objected to as not the best evidence and motion is made to strike the same. [126]

"Mr. Westall: It is just a preliminary foundation.



(Deposition of Perry M. Moss.)

“Q. Who wrote the letter?

“A. Mr. Carl E. Cameron, attorney at Long Beach, California.

“Mr. Westall: Mr. Caughey, I have heretofore served upon you a notice to produce, a copy of which I now hand to the notary, first letter dated April 17, 1940, from Carl E. Cameron, attorney for the above-named plaintiff, to Patterson-Ballagh Corporation, Ltd., 1900 East 65th Street, Los Angeles, California, and second letter from Carl E. Cameron, attorney for said plaintiff, dated May 10, 1940, to Lyon and Lyon, attorneys at law, 811 West Seventh Street, Los Angeles, California.

“Mr. Caughey: Let the record show that the originals of the letters have been produced and handed to counsel for the plaintiff, and defendant will stipulate that letters were received in the usual course of business and they have been retained in their custody, shortly after the dates indicated according to the mail deliveries, and we will further stipulate that the date of receipt of the letters is indicated by the respective stamps shown thereon.

“Mr. Westall: One of them, on the letter of April 17, being a Patterson-Ballagh stamp, and the other one, on the letter of May 10, being May 13, and a Lyon and Lyon stamp.

“Mr. Caughey: That is correct. And it is [127] agreeable that copies of these letters may be substituted, and we will agree that they may be introduced with the same force and effect as the original.”

(Deposition of Perry M. Moss.)

The Court: Just a moment. I don't quite understand what you mean there, one of them on the letter of April 17th, being a Patterson-Ballagh stamp.

Mr. Caughey: That was addressed to Patterson-Ballagh and the other was addressed to Lyon & Lyon.

The Court: You have these here, have you?

Mr. Joseph F. Westall: Yes; here they are. They were offered in evidence and withdrawn and here is a photostat.

The Court: Are you offering them now?

Mr. Westall: Yes, but I haven't read the offer.

The Court: Go ahead.

Mr. Joseph F. Westall: "Mr. Westall: Yes, I suppose they would be photostatic copies, wouldn't they?"

"Mr. Caughey: Whatever you wish.

"Mr. Westall: Make them photostatic copies and then we have the stamp and everything on it clearly. We offer in evidence, under the stipulation of counsel, the letter of Carl E. Cameron, dated April 17, 1940, as Moss Deposition Exhibit No. 6."

And we now again offer it in evidence as Plaintiff's Exhibit 6 on the trial.

The Court: Is there any objection to that? [128]

Mr. Caughey: No objection.

The Court: Exhibit 6 is what letter?

Mr. Joseph F. Westall: There are three of them. This is April 17th.

(Deposition of Perry M. Moss.)

The Court: Let me look at it so I will be familiar with it.

The Clerk: Plaintiffs' Exhibit 6 in evidence.

Mr. Joseph F. Westall: "Mr. Caughey: Is that for the purpose of showing notice of infringement?"

"Mr. Westall: Yes, and protest, and other reasons to be shown later on in the taking of the deposition. We next offer in evidence as Moss Deposition No. 7 a letter on the letterhead of Lyon and Lyon, dated April 23, 1940, and signed by R. E. Caughey.

"Mr. Caughey: No objection.

"(The notary marked the document above referred to as Moss Deposition Exhibit No. 7.)"

We now offer that in evidence.

The Court: That will be received.

Mr. Joseph F. Westall: "Mr. Westall: We next offer in evidence the letter heretofore referred to, being the letter from Carl E. Cameron, dated May 10, 1940, to Lyon and Lyon, the original of which has been produced by Mr. Caughey, as Moss Deposition Exhibit No. 8.

"Mr. Caughey: No objection." [129]

The Court: It may be received.

Mr. Joseph F. Westall: Yes; we now offer it as that number in the trial.

The Clerk: Plaintiffs' Exhibit 8 in evidence.

Mr. Joseph F. Westall: "Mr. Caughey: This letter was not written by me, but I recognize the

(Deposition of Perry M. Moss.)

signature and will stipulate it came out of our office and was signed by Richard F. Lyon.

“Mr. Westall: Under the stipulation, we now offer in evidence the letter on the letterhead of Lyon and Lyon, dated June 4, 1940, and signed Lyon and Lyon, as Moss Deposition Exhibit No. 9.”

The Court: It may be received.

Mr. Joseph F. Westall: “Mr. Caughey: No objection.”

We now offer that in evidence as the deposition exhibit on the trial.

The Clerk: Plaintiffs' Exhibit No. 9 in evidence.

Mr. Joseph F. Westall: “Mr. Westall: Have you read and do you understand the specifications and drawings of Letters Patent No. 2,238,398, granted April 15, 1941, to J. E. Reed, a copy of which I now hand you and which I request that the notary mark for identification as Moss Deposition Exhibit No. 2.

“(The notary marked the document above referred to as Moss Deposition Exhibit No. 2.) [130]

“A. Yes, I understand the patent in suit.”

The Court: Just a moment. Shall we mark this “No. 2”?

Mr. Joseph F. Westall: Yes; we offer that in evidence. Well, it is marked for identification as Moss Exhibit 2 and I haven't offered it yet.

“A. Yes, I understand the patent in suit.

“Q. The Reed Patent?           A. Yes.

(Deposition of Perry M. Moss.)

“Q. Did you say you understand the patent in suit? A. Yes.

“Q. Well, this is the Reed Patent. Have you read and understand the Reed Patent?

“A. Yes, I do. I have read and been through it many times. I understand it thoroughly.

“Q. The Reed Patent to which I have just referred? A. Yes.

“Mr. Westall: We offer in evidence as Moss Deposition No. 2 said Reed Patent No. 2,238,398, granted April 15, 1941, as Moss Deposition Exhibit No. 2.

“(The notary marked the document as Moss Deposition Exhibit No. 2.)”

The Court: It may be received.

Mr. Joseph F. Westall: We now offer it as Plaintiffs' Exhibit No. 2 for the purpose of the trial, that is, in evidence on the trial. [131]

\* \* \*

“Q. (By Mr. Westall): Will you please explain briefly the function and intended mode of operation of the device illustrated and described in said Reed Patent 2,238,398?”

The Court: Do you now object to the introduction of the Reed patent?

Mr. Caughey: I don't object to the introduction in view of the subsequent testimony. I wanted to find out why he was putting it in and he said he was putting it in to show what they did. Really, it doesn't make any difference.



(Deposition of Perry M. Moss.)

The Court: It may be received.

The Clerk: Plaintiffs' Exhibit 2.

Mr. Joseph F. Westall: "A. It is made of a steel cylinder twenty-eight or thirty inches long, and on the side it has wings welded on, and those wings has a bunch of bolts [132] drilled through, has holes drilled in the wings, with a bunch of bolts to flange it together, and on the side it has bridle hitch means going out to the side of the derrick from the bridle, with a line attached to the bridle, running into the pulley, which end of the line after passing through the pulley goes to the drum on the floor, and is fastened to a weight. It has a hanging line welded in the middle, an eye welded in the middle of the spooler for a hanging line, to hang it in the derrick with.

"Q. Now, you have spoken of wings on the side welded to a cylinder, apparently referring to it as an unsplit cylinder. Why are the wings——

"A. It's a split cylinder to hold it together.

"Q. Do you know whether or not any device like or similar to that illustrated and described in said Reed Patent 2,238,398, Moss Deposition Exhibit No. 2, has been made and distributed?

"A. Yes.

"Q. Please state, if you know, who made such devices like or similar to that of said Reed Patent just referred to?

"A. Patterson-Ballagh Corporation.

"Q. Please state the source of your knowledge that devices like or similar to that disclosed in said

(Deposition of Perry M. Moss.)

Reed Patent 2,238,398 were made and possibly distributed or sold.

“A. By their advertisement and by seeing them in the [133] field.

\* \* \*

“Q. (By Mr. Westall): Well, how did you connect the advertisements to which you referred in your answer with the device of the Reed Patent? How did you know that those devices were made and distributed by the defendant in this case, Patterson-Ballagh Corporation?

“A. From their literature.

“Q. From their advertising?

“A. From their advertising and literature, and seeing them in the field.

“Q. Please state whether or not their advertising showed that device as shown in said Reed Patent under discussion.

“Mr. Caughey: Objected to as not the best evidence.

“Mr. Westall: You can answer the question over the objection.”

I think that is the same thing. [134]

Mr. Caughey: Yes.

Mr. Joseph F. Westall: “A. Will you go through it again, please?

“(The reporter read the pending question.)

“A. Yes, by their advertisement and by seeing them in the field.

(Deposition of Perry M. Moss.)

“Q. Were those that you saw in the field marked ‘Patterson-Ballagh’ in any way?

“A. They had ‘Patterson-Ballagh’ marked on them.

“Q. On the ones you saw in the field?

“A. Well, what I have seen. Not all of them. The original patents, the first one I seen didn’t have anything marked on it. But I have seen them with ‘Patterson-Ballagh’ on them.

“Q. And when did you see those devices out in the field, particularly those having the name ‘Patterson-Ballagh’ any place on them?

“A. Well, it was along in 1938, first part of the year.

“Q. Please state, if you know, whether said devices made like or similar to that disclosed in said Reed Patent last referred to were successfully used to perform their intended function.

“Mr. Caughey: That is objected to as calling for a conclusion of the witness; no proper foundation laid.”

That is not objected to now, is it, Mr. [135] Caughey?

\* \* \*

February 18, 1948, 10:00 A.M.

(Case called by clerk.)

Mr. Joseph F. Westall: As the court will remember, we were reading the deposition at page 17, line 4, and this question was asked:

(Deposition of Perry M. Moss.)

“Q. Please state, if you know, whether said devices like or similar to that disclosed in said Reed Patent last referred to were successfully used to perform their intended function.”

I am asking him to state if he knows whether they were. I know that Mr. Caughey objected to that but there are a number of questions that follow based upon the propriety of that question, and it seems to me that it is not—if he knows, that it is not a conclusion. He is saying something he knows and he shows he does know and why, in the later examination.

Mr. Caughey: May your Honor please, I will not object on the ground that no proper foundation was laid. There is nothing stated as to what “function” means or what this witness knew about the Patterson-Ballagh devices and, obviously, he is just giving his opinion and conclusion. That is all he is doing.

Mr. Joseph F. Westall: No; just simply whether he knows. I think he knows they were not practical and I think we all [137] know it.

Mr. Caughey: That is a mere conclusion.

Mr. Joseph F. Westall: No. Then he proceeds later in the subsequent examination to tell why.

Mr. Caughey: If the later examination is based upon proper facts, that is something else, but I am talking about this specific question.

Mr. Joseph F. Westall: He says they were not successful.

The Court: He used the word “successful” and

(Deposition of Perry M. Moss.)

that calls for an interpretation. If you ask for facts and if he states facts, that evidence is competent but, when you ask a question of that kind, it appears to be a conclusion; I mean in the realm of the use of words that appear to be conclusions.

Mr. Joseph F. Westall: I think those facts are very clearly stated.

The Court: He may give the facts if he wishes, if that is the inquiry. To some extent, that is the province of the court in this particular, is it not?

Mr. Joseph F. Westall: Of course, all of those ultimate questions are for the court, whether it is successful or not.

The Court: To ask a man, who is vitally interested in the matter, who is a litigant, as to whether the other man's invention was successful or not, I think is going out of the realm of fact inquiry. [138]

Mr. Joseph F. Westall: It is evidence so far as it goes.

The Court: If you have any authorities, I would like to hear them.

Mr. Joseph F. Westall: For the sake of the record, subject to the objection, your Honor might modify that later on.

The Court: Yes; if you can give me some more light on the situation so far as the law is concerned. This ruling that I am making now will be made subject to your later motion to renew your question.

Mr. Joseph F. Westall: Yes. Then, proceeding with the reading of the deposition at page 17, line 13:



(Deposition of Perry M. Moss.)

“A. The Reed patent is not made any more.”

The Court: Pardon me. This objection takes in what lines?

Mr. Joseph F. Westall: Lines 8 and 9.

The Court: The answer is on line 13, is it?

Mr. Joseph F. Westall: Beginning with line 13. He answers as follows: “The Reed patent is not made any more.” He was talking about a foundation is it isn’t made.

“Mr. Caughey: That is objected to as calling for a conclusion of the witness; no proper foundation laid.

“Mr. Westall: I have asked him if he knows.

“The Witness: Shall I answer?

“Mr. Westall: Yes.” [139]

\* \* \*

“Q. You have stated that devices made and distributed by Patterson-Ballagh in accordance with said Reed Patent, Moss [140] Deposition Exhibit No. 2, were not successful in use. Will you please explain, if you know, why they could not be used successfully?”

That, of course, is laying a little more foundation. This is talking about the actual devices. And then Mr. Caughey, at the top of page 18, says:

“Just a second. Objection is made upon the ground that the question is presupposed upon an answer to which there has been made a motion to strike, and notice is given that if said motion is

(Deposition of Perry M. Moss.)

granted by the court, that all questions based upon said answer will also be moved to be stricken."

He has already explained the Reed patent, what they were making. He does explain it fully and so he knows exactly what he is talking about.

Mr. Caughey: I have no objection to that if he knows what he is talking about, but I want to get some facts to show what he is basing his answer upon.

The Court: Go ahead. There is no objection now. You may proceed.

Mr. Joseph F. Westall: "Mr. Westall: You may answer the question.

"The Witness: Being flanged together and hung from the center, made them out of balance and it was impractical.

"Q. When you say hung from the center, what do you mean? [141]

"A. Well, the spooler was hung from exactly the center of the spooler, the hanging line. The weight of the spooler is on that hanging line at all times and the hanger will be in the center and put it out of balance and cause friction on the top and bottom of your rubbers. It will wear out your rubbers and therefore you get bad results with the hanger being in the middle.

"Q. Please refer to said Reed Patent 2,238,398, Moss Deposition Exhibit No. 2, and point out or indicate by numeral in the patent the hanging line to which you have referred and its attachment to the spooler.

(Deposition of Perry M. Moss.)

“A. The hanging line is right here in the center of your spooler.”

The Court: Wait until I look at it.

Mr. Joseph F. Westall: That is shown best in the Figure on the second sheet of drawings, the last Figure.

The Court: All right.

Mr. Joseph F. Westall: “A. The hanging line is right here in the center of your spooler (indicating).

“Q. Indicated by the numeral 28?

“A. That is right.

“Q. And the line apparently is indicated as 29?

“A. That is the hanging line to hang it in the dirt with.”

In the deposition it says “in the dirt” but at the end [142] of the deposition the witness corrects that and says that should be “in the girt.”

Mr. Caughey: I will so stipulate.

Mr. Joseph F. Westall: “Q. Yes.

“A. And the hanging is attached to the center of this spooler.

“Q. In that lug or whatever it is?

“A. Yes, that eye.

“Q. And extends up and the top end of it is attached to a part of the derrick?

“A. It is attached thirty or forty feet above the spooler.

“Q. Yes.           A. To a girt of the derrick.”

It says the “crown in the rig” but he corrected that to the “girt of the derrick.”

(Deposition of Perry M. Moss.)

Is that stipulated to?

Mr. Caughey: Yes; I will stipulate to it.

Mr. Joseph F. Westall: "Mr. Caughey: Is the witness talking about a patent, or is he talking about the operation? The question, as I recall, was directed to the patent.

"Mr. Westall: I don't think it was.

"Mr. Caughey: Is there anything in the patent which shows any distance or describes any height to which it shall be hung? [143]

"Mr. Westall: Well, whether there is anything in the patent or not, which I don't for the present know without examining it, you know as a matter of fact that the devices made by Patterson-Ballagh under said Reed patent were hung on a hanging line corresponding to the hanging line 29 of the patent and from a loop indicated by the number 28 in Figure 2 of the patent and attached to a part of the derrick as shown in part of the derrick numbered 30, as shown in Figure 1 of the patent?

"A. Yes.

"Q. That is the way they were hanged?

"A. That is the way they was hanging.

"Q. And that hanging and that attachment and hanging you have said was impractical?

"A. Impractical. Put them out of balance.

"Q. And the result of putting it out of balance was what?

"A. Well, you got bad results from your spooler being hung from the center. It put it out of balance. It had no existence to take the whip out of

(Deposition of Perry M. Moss.)

that line because it is teetering like that all of the time.

“Q. And the line you have last referred to is what line? A. Line 29.

“Q. Well, I mean, you have talked about the wear. [144]

“A. The wear, that is the drilling line on the well.

“Q. That would be the line corresponding to the line 12 as shown in Figure 2?

“A. To line 12, yes.

“Q. Do you know to what extent at the present time have devices been made like or similar to that described in said Reed patent and practically used by anyone? A. No.

“Q. I wish you would explain your answer no a little more fully.

“A. No, the Reed patent, you don't see it any more in the field.

“Q. The devices?

“A. The devices of the Reed patent, the devices which the Patterson-Ballagh Corporation are making today, you see them, they are very popular in the field, you see them very frequently. Well, I'll say 75 per cent of the rigs.”

That is the ones they are making today, which are under the Moss patent.

Mr. Caughey: That certainly is not in the record and I don't understand that interjection.

Mr. Joseph F. Westall: That is not in the record. I will take it back.



(Deposition of Perry M. Moss.)

The Court: "Seventy-five per cent of the rigs," it says here. [145]

Mr. Joseph F. Westall: Yes; of the rigs.

"Q. I now call your attention to a wooden frame in the office, which I have marked for identification on a shipping tag to it, as Moss Deposition Exhibit No. 3, and ask you whether or not you made or caused to be made such frame? A. I did.

"Q. Please explain why you made or caused to be made such frame marked for identification Moss Deposition Exhibit No. 3 and what it is intended to represent or illustrate.

"A. An oil derrick for demonstrating the line spooler on a drilling well.

"Q. And particularly what line spooler or spoolers? A. The spooler is in the derrick.

"Q. Yes.

"A. This is the drilling line, and this is the line spooler (indicating model)."

That is, that model.

"Q. Well, we will identify those more fully later. And you made that device for use in this case in order to show the operation of these devices—spoolers? A. I did.

"Q. Attached by various cords to Moss Deposition Exhibit No. 3 for identification are certain metal apparatus, which I have marked for identification Moss Deposition Exhibit 4. Please state whether you made or caused to be made such [146] apparatus? A. I did.

(Deposition of Perry M. Moss.)

“Q. What is the apparatus last referred to and marked for identification Moss Deposition Exhibit 4 and what is it intended for?

“A. That is a model of my patented device, intended—it is a line spooler for spooling a line on a drilling well.

“Q. And it is made in accordance with your patent in suit, Moss Deposition Exhibit 1?

“A. Yes.

“Mr. Westall: We now offer in evidence, as Moss Deposition Exhibit 3, the derrick frame which the witness has described and identified, and we also offer in evidence the model of the device of the Moss patent in suit, which, during the taking of these depositions, is suspended in the frame, Moss Deposition Exhibit 3, as Moss Deposition Exhibit 4.”

And we now offer both of those in as the same numbered exhibits, 3 and 4, on the trial of this case.

Mr. Caughey: No objection.

The Court: They may be received and marked.

Mr. Caughey: Without admitting, your Honor please, that that is a model which is constructed to scale. I will say that the way that that is suspended in the well isn't the way it is actually set up in the field in a derrick. But, as [147] a model to show the way it is suspended, just generally showing the thing, I have no objection. But when it comes to detail and to scale, then I object. I object that it doesn't show the proper scale.

(Deposition of Perry M. Moss.)

Mr. Joseph F. Westall: In answer to counsel, I will say that scale is no part of the claims in suit and no part of the drawings or dimensions. Those dimensions may be varied to any size and it has nothing whatsoever to do with it.

The Court: You could have this suspended from two blocks, couldn't you?

Mr. Caughey: What I have particularly in mind, for example, the wire line is shown going to the center at the top. As a matter of fact, that is not the way it is done in ordinary operation at all. Furthermore, there is no showing of the drum down here where the drum is, and we would like to have described by somebody, who knows the art of drilling, just where the drum is. Insofar as this is suspended, I have no objection, but, as far as the way it is attached at the top and bottom and other details, I don't agree to it as a proper illustration.

The Court: The only thing involved here is a spooler, is it not, in this litigation?

Mr. Caughey: Oh, no; that isn't all that is involved at all; no, sir, because the claims in and of themselves don't cover a spooler but cover the way it is attached in the derrick. [148]

Mr. Joseph F. Westall: You see, those two pieces up there are slidable and they were just tied for illustrative purposes. They couldn't be made exactly and there was no reason for making them so.

The Court: Those are admitted subjected to the observations made by counsel.

(Deposition of Perry M. Moss.)

Mr. Joseph F. Westall: "Q. Please state whether or not Moss Deposition Exhibit 4 is a correct model of the device as patented by you in the patent in suit, Moss Deposition Exhibit 1.

"Mr. Caughey: That is objected to as not the best evidence, calling for a conclusion of the witness."

It seems to me that he can say it is a correct model, made in accordance with the patent in suit. That is what he testifies. If counsel can show otherwise, he may do it. I don't think it calls for a conclusion of the witness.

Mr. Caughey: I believe, in view of the observations I have made, I should show just exactly what the practice is in the field. And your Honor understands why the objection is made——

The Court: In so far as the model is concerned, of course, the illustration in the patent is the best evidence, isn't it?

Mr. Joseph F. Westall: Yes; the illustration in the patent; and that is simply to show how it was used, for the [149] benefit of the court.

The Court: If that is made in accordance with the illustration——

Mr. Caughey: The illustration of the patent is pretty diagrammatic and doesn't even show a complete derrick in the Moss patent. It doesn't show very much.

Mr. Joseph F. Westall: We don't need it.

The Court: The admission is subject to any

(Deposition of Perry M. Moss.)

corrections in so far as the accuracy of the model is concerned.

Mr. Caughey: That is satisfactory.

Mr. Joseph F. Westall: The witness says, "May I answer?"

"A. Mr. Westall: Yes.

"The Witness: Yes.

"Mr. Caughey: Motion is made to strike the answer."

I suppose the motion is withdrawn, is it not?

Mr. Caughey: In view of the statement of the court, yes, sir.

Mr. Joseph F. Westall: "Mr. Westall: In the making of said model, Moss Deposition Exhibit 4, please state whether or not you followed the specifications and drawings of your patent in suit, Moss Deposition Exhibit 1.

"Mr. Caughey: Same objection.

"The Witness: Yes.

"Q. (By Mr. Westall): And the model is, to the best of your [150] ability, in accordance with your patent? A. That is right.

"Mr. Caughey: Same objection.

"Q. (By Mr. Westall): Please state how the apparatus, Moss Deposition Exhibit 4, also referring when necessary to the wooden model derrick frame, Moss Deposition Exhibit 3, operates to perform its function?

"A. How the spooler is made and how it operates?

"Q. Yes.



(Deposition of Perry M. Moss.)

"A. My spooler is a piece of four-inch pipe——

"Q. I am talking about the model.

"A. Oh, the model. The model is installed on the line as it is here.

"Q. As it now hangs in the derrick?

"A. Yes, and this is your hanging line.

"Q. Now, the one that you indicate as the hanging line is a line attached to—where is it attached?

"A. To the side of the derrick on the girt. This is your hanging line.

"Q. And where is the lower end attached?

"A. Attached to the top of the spooler, and the weight of that spooler is on that (indicating).

"Q. To a lug with a hole in it at one side near the top of the spooler, is that right?

"A. That is right. [151]

"Q. Please describe the line which is spooled. Please identify it and describe how it is used.

"A. How the spooler is used?

"Q. I mean how the line——

"A. Your drilling line pulls your pipe in and out, runs through that spooler at a very high speed and has a lot of waves in it above the spooler.

"Q. Vibrates?           A. Vibrates.

"Mr. Caughey: That is objected to on the ground that it has nothing to do with the model. The question is directed to the model. You are talking about commercial operations now.

"Mr. Westall: Yes, I am asking how it is operated."

The Court: Is there an objection to that?

(Deposition of Perry M. Moss.)

Mr. Caughey: I just made the objection so they would get back on the model.

The Court: Then, there is no objection?

Mr. Caughey: There is nothing of importance, your Honor.

Mr. Joseph F. Westall: "A. And as that line passes through and with those waves in it, this takes the waves out of your line as it passes through the spooler and causes it to spool correctly on the drum.

"Q. And what are those rubber inserts that are shown at the top and bottom of the spooler?

"A. That is the rubber inserts your line runs through [152] with a little clearance on your line, to be replaced as they wear out."

The Court: Pardon me just a moment. Where is the drum?

Mr. Joseph F. Westall: This is the drum down here.

The Court: Is there a replica of the drum spoken of here?

Mr. Joseph F. Westall: No. You see, they only use this for illustrative purposes. It will be understood it will be like the patent in suit.

Mr. Caughey: If your Honor please, if you will refer to the Reed patent, and to Figure 1——

The Court: There is also an illustration of a drum in the Moss patent?

Mr. Caughey: Yes; in Figure 2.

Mr. Joseph F. Westall: Figures 1 and 2.

The Court: That merely illustrates where the drum is located and not as to its dimensions?

(Deposition of Perry M. Moss.)

Mr. Joseph F. Westall: No; not as to its construction, which is not involved in this case.

“Q. In the model you find a line—” well, I think I didn’t read this question and answer.

“Q. And what are those rubber inserts that are shown at the top and bottom of the spooler?

“A. That is the rubber inserts your line runs through with a little clearance on your line, to be replaced as they [153] wear out.

“Q. In the model you find a line which is indicated as line 2 of the patent in suit, passing through the inserts of the spooler, attached to a cylindrical crossbar at the bottom of the derrick. What is that crossbar intended to illustrate?

“A. That’s a drum that the line spools on, on the drilling well.

“Q. The drum spooling cylinder?

“A. That is right.

“Q. The spooling drum?           A. Yes.

“Q. And in spooling, the line wraps around that as it is spooled?           A. Yes.

“Q. Starting at one end and then going back and forth?

“A. Back and forth; that is right, sir.

“Q. No matter how long it is?

“A. That is right, until you get your stand out, which is 85 or 90 feet.

“Q. Now, *stilling* referring to said line 2, to the drilling line, where does it go from the top of the spooler when it leaves the insert at the top of the spooler? Where does it go then?

(Deposition of Perry M. Moss.)

“A. The drilling line goes over the top of the derrick, [154] over the crown block.

“Q. Please describe the crown block and just what it goes over.

“A. The crown block is a series of crossing members of steel; it has pulleys on there, at the top of the derrick. They call it a crown block, and these lines are strung up on there, six or eight, or ten, or whatever is suitable for your blocks.

“Q. And those blocks are what—what does it go over?

“A. It goes over a steel pulley, each line does.

“Q. On the crown block?

“A. On the crown block.

“Q. And from there where does it go?

“A. It is attached to your traveling block, to pull your drill pipe in the hole and out of the hole, or make connections as they see fit to use it.

“Q. And it is made when unspooled to go as deep in the well as is desired?

“A. That is right.

“Q. To allow things to be lowered into the well and to be pulled out of the wall, is that right?

“A. That is correct.

“Q. Please state whether or not defendant, without your consent and over your protest, has manufactured and continued to manufacture and sell devices similar to that described [155] in said patent in suit No. 2,190,880, Moss Deposition Exhibit 1?           A. Yes.

“Mr. Caughey: That is objected to as calling for

(Deposition of Perry M. Moss.)

a conclusion of the witness, and also not the best evidence, and also calling for the opinion of the witness without a proper foundation being laid.”

Mr. Caughey: It certainly is not a proper question.

Mr. Joseph F. Westall: It is the function of the court to determine infringement. That ultimate question is for the court to consider. But you have to have evidence——

Mr. Caughey: It isn't merely evidence to ask a man whether there is an infringement.

Mr. Joseph F. Westall: We say it would be infringement when we say that the ultimate question of infringement is for the court.

The Court: That might go to the question of laches also.

Mr. Caughey: Oh, yes.

The Court: I think that answer may stand.

Mr. Joseph F. Westall: At the bottom of page 27:

“Q. (By Mr. Westall): Will you please state how you know that defendant has continued to manufacture and sell devices similar to that described in your patent in suit, Moss Deposition Exhibit 1? [156]

“Mr. Caughey: Same objection.

“The Witness: By their advertisements and by seeing them in the field.

“Q. (By Mr. Westall): And did you see any marking on them which would indicate that they came from Patterson-Ballagh on those?



(Deposition of Perry M. Moss.)

“A. I have seen ‘Patterson-Ballagh’ marked on them.

“Mr. Caughey: That is objected to as not the best evidence, and motion is made to strike it.”

Is that objection insisted upon?

The Court: That objection may be overruled. That is a matter for cross-examination to see what he knows about that particular matter.

Mr. Joseph F. Westall: “Mr. Westall: Q. Please state, if you know, when defendant began to manufacture and sell such devices like and similar to that disclosed in your patent in suit, Moss Deposition Exhibit 1?

“Mr. Caughey: Same objection.”

The Court: That objection is overruled.

Mr. Joseph F. Westall: “The Witness: In October, 1937.

Q. (By Mr. Westall): —”

The Court: Pardon me just a moment. Is there any contention that the device that was manufactured by the defendant was not sold?

Mr. Caughey: No. Mr. Ballagh stated that on the witness [157] stand.

Mr. Joseph F. Westall: Mr. Ballagh didn’t state that these that were made prior to the grant of the patent were manufactured but he said since the patent.

Mr. Caughey: Mr. Ballagh testified that all of the devices shown in the advertisements which you showed to him were manufactured and sold by the Patterson-Ballagh Corporation; that that corpora-

(Deposition of Perry M. Moss.)

tion was in existence at the time that the advertisements were put out. You asked him that question.

Mr. Joseph F. Westall: Yes. And you stipulated that those advertisements and literature were after the grant of the patent.

Mr. Caughey: I beg your pardon. They started in October, 1937.

Mr. Joseph F. Westall: Yes; I think that is so. Yes; you are right.

The next is on line 17, where the witness says:

"In October, 1937," and counsel says that is stipulated.

Mr. Caughey: I didn't stipulate. I said Mr. Ballagh testified on the stand that the devices were made and sold as shown in the advertisements.

Mr. Joseph F. Westall: Yes; that is right.

The Court: That covers the objection and that is the stipulation now? [158]

Mr. Joseph F. Westall: Yes.

"Q. (By Mr. Westall): Please state whether or not, if you know, the defendant herein is still continuing to manufacture and sell such devices as illustrated in your said patent in suit.

"Mr. Caughey: Same objection.

"The Witness: Yes."

I guess that objection is not urged here.

Mr. Caughey: My objection was to the point that the questions were tied up with the patent in suit, and it says as shown in the patent in suit. And my objection was that Patterson-Ballagh manufacture and sell devices but they don't do any installing

(Deposition of Perry M. Moss.)

of them in the field. That is done by the operator.

Mr. Joseph F. Westall: We are talking about the devices of the patent.

Mr. Caughey: That is correct.

Mr. Joseph F. Westall: You manufacture and sell these devices to be put in derricks.

Mr. Caughey: That may be so but the devices shown in the patent show a hanging line suspended in the derrick. I will grant you Patterson-Ballagh sell devices with at hanging line on it but they don't actually use the devices.

The Court: Don't you have the evidence here of just exactly what was sold and [159] manufactured?

Mr. Caughey: Yes, sir.

The Court: Is there any need to go into particulars on that score? You have a description——

Mr. Joseph F. Westall: We will have an illustration of what they made at periods.

Mr. Caughey: We raise no question about that. We just are merely making the objection of tying it up by saying "as illustrated in your said patent." If they specifically asked if Patterson-Ballagh manufactured such and such, I would have no objection, but when they ask the question "as illustrated in your patent," which means your Honor is to go to the patent to find what it is, then I raise an objection and the reason for the objection I have stated to your Honor.

Mr. Joseph F. Westall: Anyway, the witness

(Deposition of Perry M. Moss.)

says he knows what is illustrated and he explained it and I think that is evident.

The Court: Let me read this just a moment. Of course, that won't give me any information, "similar devices." I can't get any facts out of that particular answer.

Mr. Joseph F. Westall: The devices as illustrated in the patent in suit. All we have to do is look at the patent in suit to find out what those devices are.

The Court: But what is the witness talking about? What is he identifying when he says he knows similar devices are [160] being sold?

Mr. Joseph F. Westall: He is identifying the whole thing.

Mr. Caughey: Is he including the way they are hung in the well?

Mr. Joseph F. Westall: Yes; and that is the way you in your advertising literature tell your people to hang them.

Mr. Caughey: That may be so but that isn't the question and that is one of the reasons I made the objection. The way the question is framed, it doesn't mean anything.

Mr. Joseph F. Westall: He refers to the patent, as illustrated in the patent, he says; that they are making those things just as illustrated in the patent.

The Court: If your stipulation has any value, what has been sold and manufactured is exactly what is illustrated in the documents that you have referred to and the advertisements?



(Deposition of Perry M. Moss.)

Mr. Joseph F. Westall: Yes; that is what it is.

The Court: And is that what you refer to in this question?

Mr. Joseph F. Westall: Exactly and precisely.

The Court: And that is your answer that you base the factual situation on, as embodied in the answer, as referring to the advertisements of the device sold and manufactured, is that correct? [161]

Mr. Joseph F. Westall: The advertisements will be introduced after but we are just referring now to the patent. He says he knows what is in the patent and that they are making those devices just like that. That is all he answers.

Mr. Caughey: May your Honor please, the issue in this case is not whether a line spooler was made like that line spooler, because line spoolers, as we will show, were made like that before. The question is whether or not the defendants hung a line spooler from the top to cause it to perform the function that the patent specifies and, if they did that, whether or not they infringed or whether the patent is valid. There is nothing in the question that has anything to do with the way it is hung or the angle that is assumed by the spooler or anything like that.

The Court: That is another element, is it not?

Mr. Caughey: Yes, sir; and that is the reason I am raising the objection, because we manufactured and sold certain structures, and we will agree that they were manufactured and sold in accordance with our advertisements; we will admit that. But



(Deposition of Perry M. Moss.)

we do not go so far as to say and we don't believe that Mr. Westall had a right to frame his question so that it would be a mere conclusion that what we sold was exactly as illustrated in the patent and so functioning and hung.

Mr. Joseph F. Westall: Anyway, that is the question and we will have evidence on that. He is simply asked whether [162] they have devices as illustrated in the patent, and he says, positively, "Yes; we did," and that is what we contend.

The Court: There is no question about that, is there, about these devices? You have them illustrated and you have them set out in the patent.

Mr. Caughey: There isn't any question of the devices themselves.

The Court: That is what you are talking about, is it not?

Mr. Joseph F. Westall: Yes.

Mr. Caughey: If you will agree that is the device and not the way it is hung in the well——

Mr. Joseph F. Westall: The device is illustrated in the patent and it shows how it hangs and he is stating that it is made and used and hung as illustrated in his patent and sold for that use by Patterson-Ballagh Corporation. Of course, they can't build a derrick or they don't drill a well but they sell it to purchasers for use. So I don't see how I could make the question more specific.

Mr. Caughey: It certainly could be made more specific if it was brought down to a structure. I think the court can understand that is the trouble

(Deposition of Perry M. Moss.)

with the question and that it merely calls for a conclusion.

Mr. Joseph F. Westall: It says "as illustrated in your patent," and he says, "Yes; they did." I think, however, that [163] would be a minor detail when we get along because you will see later on that there can't be any question about this.

The Court: I haven't read the rest of the answer but he stated in the previous answer that he knows that similar devices were sold. And now you are asking him to state the source of his knowledge?

Mr. Joseph F. Westall: Yes; that is the next question and he answers that yes.

The Court: I think the facts as later developed may throw some light on that. I don't think that answer, in itself, is going to help the court. That objection will be overruled.

Mr. Joseph F. Westall: At the top of page 29, the next thing is I made a remark, "The source of his knowledge." And Mr. Caughey says, "Notice is called to the fact that counsel for the plaintiff is predicated his questions upon the assumption that there is actual infringement without there being any evidence in the record to support the same.

"Mr. Westall: Well, the final question of infringement is for the court after interpretation of the claim.

"Mr. Caughey: That is just what I am getting at.

"Mr. Westall: We can only at the present time

(Deposition of Perry M. Moss.)

do one thing at a time, and that is to prove the nature of the apparatus and also the actual knowledge possessed by the defendant of those devices made like the patent which we contend [164] infringe his claims.”

Right here, stopping reading for a minute, I want to say we called this witness, who was there contrary to the doctor’s orders, and we had Mr. Ballagh in the room but we postponed Mr. Ballagh because this witness was under a terrible strain. He had been propped up in bed.

Mr. Caughey: I appreciate Mr. Moss was a sick man but I don’t think there should be any such remarks in this record. As a matter of fact, on the examination I endeavored to be as courteous to him as I could. But why there should be any such remarks made here, I don’t understand.

Mr. Joseph F. Westall: I am just explaining——

The Court: I can’t follow you because he is a litigant here and, sick or well, he has brought this litigation. And it is not an issue here. I can’t see the relevancy of it unless you have something in mind.

Mr. Joseph F. Westall: This is just preliminary. There is plenty of evidence, which will be constantly going in, showing all of these things, showing that they were making it exactly like the Moss patent.

The Court: Let’s go ahead.

Mr. Joseph F. Westall: Then, Mr. Caughey says, “All right, then, why don’t you do that instead of

(Deposition of Perry M. Moss.)

asking the witness to arrive at certain conclusions? Why don't you bring out what we are doing, so we can see what you are talking [165] about?

"Mr. Westall: Well, before we get through, we will.

"Mr. Caughey: It seems to me it is proper to do it now before you ask such questions.

"The Witness: Yes, they are making it.

"Mr. Westall: Read the question, Mr. Reporter."

He was asked the source of knowledge, and the witness said, "By their advertisement and seeing them in the field.

"Mr. Caughey: Same objection as to the previous questions, and motion is made to strike the answer."

Your Honor, he saw them in the field and knew their advertisements and afterwards we put the advertising in.

The Court: If what he saw corresponds to what was adduced as shown by your illustrations, then I will know that that is the device that he has seen in the field.

Mr. Caughey: That is true; he may have seen the device in the field, sold by Patterson-Ballagh, but that has nothing to do with the way in which the thing may be hung in the well.

The Court: Isn't that developed later on?

Mr. Caughey: Yes.

Mr. Joseph F. Westall: Yes.

The Court: If it is developed later on, on cross-



(Deposition of Perry M. Moss.)

examination, and will be followed up, then we will know what happens. I will rule on that if you want a ruling. Do you want a ruling? [166]

\* \* \*

Mr. Joseph F. Westall: "Q. (By Mr. Westall): I place before you certain advertisements which I have marked for identification Moss Deposition Exhibits 10-A, including intervening letters, to 10N (handing papers to Mr. Caughey and then to the witness, and a pause), and ask you if those are some of the advertisements to which you referred as a source of knowledge concerning the character of the line spooler that the defendant in this case has been making and offering for sale and selling."

Mr. Caughey: May your Honor please, in view of the fact that these advertisements are in and they cover from pages 30 to 38 and that they merely identify the advertisements and they are already in, I seen no reason for reading that, and I would stipulate that it may be read and copied in the record or deleted, because the advertisements are in by stipulation.

The Clerk: They have not yet been offered in evidence.

Mr. Caughey: Then, offer them and that will take care of it. It just takes up considerable time which I think is unnecessary.

Mr. Joseph F. Westall: Then, we offer the exhibits, heretofore identified as Moss Exhibits 10A to 10N, as Moss Exhibits [167] on the trial in evidence, Plaintiffs' Exhibits 10A to 10N.



(Deposition of Perry M. Moss.)

The Clerk: Is it stipulated that the one marked with the letter "E" should be trial exhibit "10E"?

Mr. Caughey: Yes; so stipulated.

Mr. Joseph F. Westall: Yes; that has been stipulated.

The Court: That may be received. This is beginning with page 30——

Mr. Caughey: To the top of page 38.

Mr. Joseph F. Westall: You see, in this deposition the pages of the catalogs and one thing and another are identified and I think it would be better to read the deposition in order to have that in.

The Court: I think you may go ahead and read that because I notice there are some objections and discussion there.

Mr. Caughey: I will withdraw the objections in view of the fact I had the opportunity of going over subsequently all of the advertisements. At the time I made the objections, I didn't know because I hadn't seen the advertisements before.

Mr. Joseph F. Westall: It is true, too, that Mr. Ballagh later did admit they were the advertisements.

Mr. Caughey: That is correct.

Mr. Joseph F. Westall: That is one thing that obviated [168] your objections.

Mr. Caughey: Yes.

Mr. Joseph F. Westall: I notice at the bottom of page 33 where there was a suggestion, and I said, "Well, we must have them in evidence, and I believe that sufficient foundation has been, and fur-

(Deposition of Perry M. Moss.)

ther foundation will be made as you suggested, during Mr. Ballagh's examination."

The Court: I would like to have you read that so I can consider the objections between pages 30 and 38. Whatever the fact is, I would like to have you read it.

Mr. Joseph F. Westall: Yes. Then, I will go on from there and read, beginning with line 8, to the end of that question, referring to his source of knowledge, which he answered. He says, "A. Yes; that's them.

"Q. Those are the advertisements, are they?

"A. Yes, those are the advertisements.

"Mr. Caughey: Counsel for defendant has no objection to the use of those photostats in the series from 10A to 10N, inclusive, when and if they are offered in connection with the taking of the deposition, subject, of course, to the question whether they are material and sufficiently proved.

"Mr. Westall: We offer in evidence, as Moss Deposition Exhibit 10A, a purported advertisement of Patterson-Ballagh, comprising pages numbered, in pencil, 1, 2 and 3, on each of the pages, showing a part of a derrick with a line spooler [169] installed therein.

"(The notary marked the document Moss Deposition Exhibit 10A.)"

The Court: May I see those that are offered?

Mr. Joseph F. Westall: Mr. Caughey says, in line 10, "Is that the advertisement I sent you?

(Deposition of Perry M. Moss.)

“Mr. Westall: You sent us.

“Mr. Caughey: Insofar as that particular advertisement is concerned, we will stipulate that is an advertisement of the Patterson-Ballagh Corporation, that is, a photostatic copy of an advertisement.

“Mr. Westall: That is, you are talking about Moss Deposition Exhibit 10A, is that correct?

“Mr. Caughey: Yes.

“Mr. Westall: We also offer in evidence, as Moss Deposition Exhibit 10B, a purported leaflet or advertisement, rather, which is noted at the bottom to have been of June 3, 1944, in the Oil and Gas Journal and entitled at the heading ‘How to Control a Traveling Wave.’

“(The notary marked the document Moss Deposition Exhibit 10B.)

“Mr. Caughey: If you are offering it, Mr. Westall, as advertisements that the witness saw, we have no objection. If you are offering it as advertisements of Patterson-Ballagh, objection is made on the ground that it is not sufficiently [170] proven. Mr. Ballagh is here and I presume you will put him on the witness stand and, if he will have an opportunity of going over them and you will ask him the proper questions, in all probability we can determine at that time whether they are advertisements of Patterson-Ballagh. But I believe that at this time it is not in order to offer them as advertisements of Patterson-Ballagh without sufficient proof.

(Deposition of Perry M. Moss.)

“Mr. Westall: When Mr. Ballagh takes the stand, we will follow counsel’s kindly suggestion, but we believe that there has been a sufficient foundation as to the source of this witness’ knowledge for the present offer, which we are making under the stipulation of counsel.

“Mr. Caughey: Well, if you are making the offer, as I said, to show those are the advertisements he relies upon, I have no objection.

“Mr. Westall: Well, of course, we are showing that we are——

“Mr. Caughey: But, if you are putting them in for any other additional purposes or showing that they are advertisements of Patterson-Ballagh at the present time——

“Mr. Westall: We are showing that they were advertisements of Patterson-Ballagh at the time of their respective dates, which is shown on most of them, I believe, and, as we say, we are showing that these advertisements were seen by the witness and they are the basis of his statement that he [171] knew they were advertising and offering for sale line spoolers such as described.

“Mr. Caughey: That was not the testimony of the witness. The witness testified they were manufacturing and selling spoolers such as shown in the advertisements and that he knew that by the advertising.

“The Witness: And by seeing them in the field.

“Mr. Westall: And also by seeing them in the field. They must have been sold.



(Deposition of Perry M. Moss.)

“Mr. Caughey: We are talking about the advertisements at present. As I previously stated, if they are being offered solely to support the testimony of the witness that that is what he was relying on, the advertisements in part, to show that Patterson-Ballagh was manufacturing and selling the devices shown in the advertising, I have no objection. But I believe the other introduction is out of order at the present time, that is, that they were actually advertisements of Patterson-Ballagh. Same objection. Why don't you put them in for identification?”

“Mr. Westall: Well, we must have them in evidence, and I believe that sufficient foundation has been and further foundation will be made as you suggested, during Mr. Ballagh's examination.”

The Court: We will take a five-minute recess.

(Short recess.) [172]

Mr. Joseph F. Westall: I believe that the last exhibit we were talking about was B and I understand from the clerk that all of these exhibits, 10A to 10N have been marked in evidence under a blanket offer.

The Court: Yes.

Mr. Joseph F. Westall: We take up, next, at the top of page 34, line 3.

“Mr. Westall: We now offer in evidence, as Moss Deposition Exhibit 10C, an original copy of The Oil Weekly, dated June 25, 1943, and particularly page 66 thereof, showing a purported adver-



(Deposition of Perry M. Moss.)

tisement of Patterson-Ballagh of the apparatus in question in this litigation.

“Mr. Caughey: Same objection.”

And that has already been offered in evidence.

“Mr. Westall: We next offer in evidence, as Moss Deposition Exhibit 10D, an original copy of The Oil Weekly, dated February 19, 1945, and particularly to page 49 thereof.”

And that is also in evidence.

“Mr. Westall: We next offer in evidence what purports to be a brown paper-covered pamphlet labeled on the outside cover ‘Patterson-Ballagh Oil Well Specialities,’ but which so far as I have been able to find does not bear a date, and particularly pages 1948 and 1949 of said catalog, as Moss Deposition Exhibit 10E,” which is in evidence as 10E on the trial.

At the bottom of page 34, there is an objection but [173] counsel has withdrawn his objections and I don’t need to read it. Beginning at the top of page 35:

“Mr. Westall: We next offer in evidence a blue-back mottled pamphlet labeled on the back, in red, ‘Patterson-Ballagh’ and, in white, on a black background, ‘Oil Well Specialties,’ and apparently a catalog of specialties of the defendant corporation, and particularly pages 1936 and 1937 thereof, as Moss Deposition Exhibit 10F.”

That also has been put in evidence.

“Mr. Westall: We next offer in evidence, as Moss Deposition Exhibit 10G, a copy of The Oil

(Deposition of Perry M. Moss.)

Weekly, dated June 24, 1946, and particularly page 66 thereof."

Page 35, line 16:

"Mr. Westall: We next offer in evidence, as Moss Deposition Exhibit 10H, a black, white-lettered photostat, labeled at the bottom 'Patterson-Ballagh Oil Specialties,' dated April 25, 1940, and purporting to be page 20 of The Oil and Gas Journal."

At the bottom of page 35, line 26:

"Mr. Westall: We next offer in evidence as Moss Deposition Exhibit 10I a photostatic copy of The Oil and Gas Journal, page 186, which has written at the bottom of it, 'December 30, 1937.' "

Page 36, line 7:

"Mr. Westall: We next offer in evidence, as Moss Deposition [174] Exhibit 10J, a black, white-lettered photostat with the name and address of Patterson-Ballagh Corporation, being page 40 of The Oil and Gas Journal, or so marked," and the date of that Journal is November 18, 1938.

Page 36, line 14:

"Mr. Westall: We next offer in evidence, as Moss Deposition Exhibit 10K, a white photostat, black-lettered, marked at the bottom 'Patterson-Ballagh Corporation,' with its address, and marked also page 40 of The Oil and Gas Journal, and also having a notation, apparently in pen, 'December 18, 1938.' "

The Court: This one I have here says, November 18, 1938."

(Deposition of Perry M. Moss.)

Mr. Joseph F. Westall: Exhibit 10J.

The Clerk: That is 10K.

Mr. Joseph F. Westall: What is the date on there? What does it say?

The Clerk: November 18, 1938.

Mr. Joseph F. Westall: Yes; I have got the wrong number here.

Mr. Caughey: I will stipulate it is November 18, 1938.

Mr. Joseph F. Westall: At page 36, line 23, "Mr. Westall. We next offer in evidence a white photostat, having a caption at the top of the first column, 'Drilling 10th Well Without Replacement,' with a picture of an oil line [175] spooler, and at the bottom of that column containing the words 'Patterson-Ballagh Wire Line Guides, Patterson-Ballagh Corp.,' and giving the address, and being page 74 of The Oil and Gas Journal, the top of the second two columns on the page being headed 'December Crude Estimate Is Lower Than a Year Ago,' as Moss Deposition Exhibit 10L," which is in evidence.

Then, at page 37, line 10:

"Mr. Westall: We next offer in evidence a white photostat, with black letters and illustrations, being page 100 of The Oil and Gas Journal, the heading of the page being 'How to Control Traveling Wave,' and having the date June 3, 1944, written at the bottom, as Moss Deposition Exhibit 10M."

On page 37, line 19:

"Mr. Westall: We next offer in evidence a green mottled black paper-covered catalog labeled on the

(Deposition of Perry M. Moss.)

back, in red, 'Patterson-Ballagh' on a black background and between the two names, in white, 'Oil Well Specialties,' and in white, on a black background, at the bottom of the cover, the words, '1947 — "Best Bet Yet" for Twenty Years,' and particularly pages 3081 and 3082 thereof, apparently not dated, as Moss Deposition Exhibit 10N," which I understand is in evidence.

And that is the end of the offers of those exhibits. At the top of page 38:

"Q. (By Mr. Westall): When did you first conceive of the [176] invention of your patent in suit, 2,190,880? A. May, 1936.

"Q. When did you first disclose the invention of said patent to anyone? A. May 16, 1936.

"Q. To whom did you first disclose the invention of your said patent?

"A. To Mr. A. M. Anderson, superintendent of Holly Oil Company, Huntington Beach, and Mr. William Phillips of Garden Grove.

"Q. After your first disclosure as above related to others of your said invention as finally covered in the Letters Patent in suit, Moss Deposition Exhibit 1, when did you make any other disclosure to anyone?

"A. November 23, 1936, to Perry Terry of Huntington Beach.

"Q. When did you place the matter of preparing your application for your patent 2,190,880, Moss Deposition Exhibit 1, in suit, in the hands of your attorney, Mr. Cameron?



(Deposition of Perry M. Moss.)

“A. I placed my case in the hands of Mr. Cameron along the first of March, 1940.

“Q. In the hands of Cameron?

“A. Yes, sir.

“Q. The matter of preparing the application?

“A. Oh, preparing the application, I see. [177]

“Q. In the hands of your attorney.

“A. It was January 3, 1938.

“Q. And what was the name of the attorney?

“A. Mr. Maynard.

“Q. Has the device of your patent in suit 2,190,880 been successful in operation? Did it perform its intended function? A. Yes.

“Mr. Caughey: That is objected to as calling for a conclusion and opinion of the witness.”

Does counsel insist on that?

Mr. Caughey: I certainly do. There isn't any question about that in my mind.

Mr. Joseph F. Westall: His intended function of the device is fully stated in the patent and he says it did perform this function of its design.

Mr. Caughey: I don't think that would help the court.

Mr. Joseph F. Westall: I think it would.

The Court: That is his opinion, for what it is worth. Overruled.

Mr. Joseph F. Westall: Page 39, line 14:

“Q. (By Mr. Westall): Referring to your patent in suit 2,190,880, Moss Deposition Exhibit 1, and to the weights indicated in Figures 1 and 2 of the drawings of said patent marked 21, please



(Deposition of Perry M. Moss.)

state whether or not it makes any difference [178] in the operation of the device whether said weights 21 are above the derrick floor or below the derrick floor.

“A. It doesn’t make a bit of difference.

“Q. Referring to the hanging line 14 of the drawing of your patent in suit, Moss Deposition Exhibit 1, please state how long, approximately, that line will be.

“A. Forty-five feet.

“Mr. Caughey: Just a second, please. Is the witness talking about what is shown in the patent or what he states should be the commercial operation?

“Mr. Westall: He is talking about the actual commercial use of it.”

**At the top of page 40:**

“Q. Could that line be as short as 30 feet and still properly perform its stated function in your said patent in suit?      A. Yes.

“Mr. Caughey: That is objected to on the ground that there is no definition of ‘function.’ ”

The function is stated in the patent.

Mr. Caughey: In view of your Honor’s previous ruling, I will withdraw that.

The Court: Very well.

Mr. Joseph F. Westall: Then Mr. Caughey says, “I don’t know what you are talking about. [179]

“Mr. Westall: We are talking about the line 14 of the patent in suit.

(Deposition of Perry M. Moss.)

“Mr. Caughey: Well, it functions as a line, I will admit, if that is what you mean.

“Mr. Westall: The hanging line we are talking about, does hanging line 14 of your patent in suit perform any function in the initial installation of the device and, if so, what function?

“A. Yes. My patented device has an eye welded on top, one end of that hanging line attached on the floor by the crew. It is pulled up in place with the cat line and the other end of that hanging line is attached 30 or 40 feet above the drum over the center above the spooler, over the center of the drum, and the cat line is removed and the weight of the spooler is on that hanging line at all times.”

Page 41:

“Q. Is it true that the weight of the wire line guide in the device of Reed Patent 2,238,398, Moss Deposition Exhibit 2, is only on a hanging line at initial installation?

“A. No. It's installed the same as mine. That hanging line is tied in the center of the spooler on the floor, the way the majority of the crews put it up. One end of that hanging line, on the Reed patent, is attached to the center of the spooler. The spooler is placed with the cat line and the other end of that hanging line is attached to the [180] side of the derrick 30 or 40 feet above the spooler over the center of the drum, and then the cat line is removed and the weight of that spooler is on that hanging line at all times.

“Q. Is it true that the only occasion on which

(Deposition of Perry M. Moss.)

the weight would be suspended on the hanging line, to which you have just referred, would be when the weight of the wire line guide exceeds the weight of the counter weights?

“Mr. Caughey: May I have that question, please?

“The Witness: The weight’s on that hanging line at all times.

“Q. (By Mr. Westall): Is it true that the weight of the wire line guide in the device of your patent in suit and in the device of the Reed Patent 2,238,398 is approximately 84 pounds?

“A. Mine weigh a hundred pounds.

“Mr. Caughey: Mr. Westall, I have made no objection to date but all these questions you are asking are leading questions. The witness has testified he is fairly familiar with this art, and I don’t see any necessity for asking leading questions on this examination.

“Q. (By Mr. Westall): Please state, if you know, whether or not the weight of the wire line guide in either of said constructions at any time approximates a hundred pounds.

“A. Yes, mine weigh a hundred pounds.

“Q. You have already said that. [181]

“A. Yes.

“Q. And the other one you don’t know?

“A. I don’t know what it weighs.

“Q. Does line 14 of your patent in suit, the hanging line, or lines 29 and 29 prime of a similar line of said Reed Patent 2,238,398, Moss Deposition Exhibit 2, perform any function of a safety line?

(Deposition of Perry M. Moss.)

“A. No, sir. The safety line is slack at all times. It is used for a safety line and a hold-down line. In case this hanging line breaks, it will catch it. The weight of your spooler is on this hanging line at all times.

“Q. You have spoken of a safety line. Where is the safety line which you have?

“A. This used as hold-down line (indicating). It is slack at all times.” The hold-down line is this line. “It is slack at all times, in case this hanging line breaks.

“Q. The line you refer to is attached to the side of the derrick and is slack and the other end is attached to—— A. This spooler.

“Q. The lower part of the spooler?

“A. That is right.

“Q. That is the safety line?

“A. That is the safety line. It is slack at all times. They call it a safety line and a hold-down line. It answers for both. [182]

“Q. Is it practical at any time to have the hanging line slack when it is in use?

“A. No, the spooler wouldn't function properly.

“Q. How soon after the discovering what you contend to be infringement in this case did you place the matter in the hands of Cameron for notification or protest?

“A. How soon after I got my patent?

“Q. How soon after discovering the infringement of your patent, after your patent was granted, of course?

(Deposition of Perry M. Moss.)

“A. Well, I turned my case over to attorney Cameron around the first of March, 1940. Do you want the notification when he notified him, he notified Patterson-Ballagh Corporation?

“Q. Yes, we have that in the evidence.

“A. Yes. Along in 1942 Mr. Cameron got killed in an automobile accident.

“Mr. Westall: You may cross-examine.

“Cross-Examination

“By Mr. Caughey:

“Q. I believe you testified to some date of April 5, 1937, Mr. Moss. Was that the date upon which you actually constructed one of these devices?

“A. October——

“Q. April 5, 1937, you gave that date.

“A. Yes, that is when I actually put up one on a rig. [183]

“Q. Is that the first time you ever did put one up on a rig?

“A. Yes, that was my first one—April 5, 1937.

“Q. You also testified to manufacturing a device, making one, I believe in December of 1936, or maybe it was the latter part of November, is that correct?

“A. I didn't make any then. I talked—I conceived the idea of working on a rig—having it on the floor, having so much trouble with the line—I conceived the idea of a line spooler, and that is when I told Mr. Art Anderson about the spooler on that date.



(Deposition of Perry M. Moss.)

“Q. On November 23, 1936?

“A. No, that is when Mr. Terry—no, I told Mr. Anderson the 16th of November, 1936. Mr. Terry, Huntington Beach, the 23rd of November, 1936.

“Q. And you are relying on your recollection as to those dates, are you, Mr. Moss?

“A. Yes, I am.

“Q. Have you any other evidence to support it except your recollection?

“A. I have other witnesses.

“Q. I mean, you——

“A. Do I have any more?

“Q. Yes, any documentary evidence or anything to support the disclosure to these gentlemen as of the dates indicated, [184] except your recollection.

“A. I have their sworn statement.

“Q. You have their sworn statement?

“A. Yes.

“Q. Was that sworn statement made at the time you made the disclosure?           A. No.

“Q. Have you got that sworn statement available?

“A. Mr. Caughey has Mr. Anderson's sworn statement.

“Q. You mean Mr. Westall has?

“A. Mr. Westall has. He should. He had it in his records. Haven't you got that sworn statement of Mr. A. M. Anderson?

“Mr. Westall: Yes, those witnesses will be called later.

“Q. (By Mr. Caughey): I am inquiring now

(Deposition of Perry M. Moss.)

as to whether or not at the time you made the disclosure they signed anything to the effect that you had disclosed this invention to them.

“A. No, they didn’t sign anything. I just merely talked it over with them and told them how I was going to make this spooler and how it was to be constructed.

“Mr. Caughey: May I inquire of counsel the date of these statements referred to by the witness?

“Mr. Westall: I don’t know what they were, since I have taken them. [185]

“Mr. Caughey: In other words, three or four years after the disclosure?

“Mr. Westall: It may be. But, of course, those dates were very carefully checked with various documents which we will produce.

“Q. (By Mr. Caughey): Then, your testimony is that the first device you manufactured, actually made, was on April 5, 1937?”

The witness says, “Yes, sir,” but at the end of his deposition, he has corrected it as follows: “April 5, 1937, was not the date I made the device. That was the date I sold the device to Holly Oil Company, having completed it within four days from the date I started making it, November 23, 1936, as I believe I have testified.”

“Q. And where was that made?

“A. I made it in my garage at my house in Long Beach.

“Q. Who, if anybody, assisted you to do it?

(Deposition of Perry M. Moss.)

“A. No one.

“Q. Did you show it to anyone while you were manufacturing it and making it?

“A. Why, I took it to the welding shop and had it welded up.

“Q. What welding shop?

“A. There was a welding school on Orange Avenue.

“Q. What was the name of it? [186]

“A. It was a welding school. A fellow by name of Rhodes run the welding school.

“Q. Whereabouts on Orange Avenue?

“A. It is on 17th and Orange.

“Q. In Long Beach? A. Yes, sir.

“Q. And was that subsequent or after April 5, 1937, that you took that to Rhodes to be welded?

“A. That was before April 5, 1936.

“Q. So April 5 is the date when you actually first used it?

“A. Actually first used it, that is correct.

“Q. Where did you first use it?

“A. At Huntington, Holly Oil Company 7A.

“Q. Now, as to that first device that you manufactured and you testify was used on the Holly Oil Company rig, state whether or not that structure had rubber bearings such as shown in your patent and which are identified in your patent as, particularly the drawings, as I believe 6. I am referring to these rubber bearings through which the (handing paper to witness)——

“A. You mean are they the same principle?

(Deposition of Perry M. Moss.)

“Q. No, I am not asking you whether they are the same principle. I am asking you whether they are the same.

“A. The first one I made was six inches long, and after [187] I got the spooler going in the field I lengthened them out eight inches long.

“Q. Referring to the one that was six inches long, how many rubber bearings surfaces did you have in that?

“A. Three; one at the top, one in the middle, and one at the bottom.

“Q. Positions somewhat the same as in Figure 3 of your patent?           A. Yes.

“Q. And how did you anchor those bearings in there?

“A. It was anchored in with a bolt on the side for holding them in place so they wouldn't fall out.

“Q. With respect to the size of the drilling line, how did the diameter, cross-sectional diameter, of the groove compare?           A. You mean——

“Q. The groove through which the line ran, the groove that was in the rubber bearing?

A. Well, it had about a half inch, I'll say, a quarter inch clearance around it.

“Q. Around it?

“A. That is right, so that the line would have slack to go in.

“Q. And you are talking about a quarter inch clearance when the device was in closed [188] position?”

(Deposition of Perry M. Moss.)

And then at the top of page 49:

“A. Quarter inch on each side.

“Q. In closed position?

“A. Yes, that is right.

“Q. Did that first device have an eye at the top of the structure for attaching the hanging line to it?

“A. Yes.

“Q. And how far up on the derrick did you attach the hanging line?

“A. I went up the derrick just as far as it needed to go to make it line up with the drum on the drilling line. Some drums vary farther than others. That is why you have to go farther so they will line up and be perpendicular and take the friction off your spooler. All rigs are not alike.

“Q. In other words, you attach the hanging line far enough up on the derrick so it was directly over the drum, is that correct?

“A. That is right, and far enough so that the spooler wouldn't have any friction on it.

“Q. You are talking about, as far as being directly over the drum, you are talking about the center of the drum, so far as the width is concerned? A. That is right.

“Q. How about the center as far as the length of the drum is concerned? Did you take that into consideration? [189]

“A. Well, you hang your spooler in the center of the drum. Some drums are wider than others, and you have it line up where it will take care of any width of drum.



(Deposition of Perry M. Moss.)

“Q. Well, isn't it a fact that sometimes the drum will be, not in the center of the derrick so far as the side is concerned, but it will be closer to one side of the derrick than the other?

“A. That is right.

“Q. And in that case you move the hanging line over to line up with it?

“A. To the center of the drum; that is right.

“Q. And you consider that of importance, do you?      A. Yes, sir.

“Q. Would this spool as shown in your patent function if it was not hung in that manner?

“A. No, it wouldn't.

“Q. In your opinion, does the length of the line have anything to do with the angle at which the spooler would hang, assuming that there was not any line running through the spooler? In other words, it is my understanding that the reason that you state in your patent that you hang the line from the top, this eye at the top——

“A. That is right.

“Q. Attach it up above, is so that, regardless whether the line is through the spooler or not, it would turn at the [190] same longitudinal angle as the axis of the wire which would be passing through it ordinarily?

“A. Yes, within two or three degrees.

“Q. Within two or three degrees?

“A. Yes.

“Q. Now, does it make any difference in so far as that angle at which the spooler—which it would

(Deposition of Perry M. Moss.)

take from the vertical, as to how high the hanging line is above the spooler?

“A. It wouldn’t make any difference. The only thing is, you have got to put this line up here, if you hang a spooler proper where it will line up; instead of tying it over here, you would pull your line back out of position. It has got to be up high enough. As I just got through saying, some drums are here and some there. It has got to be up high enough so it will hang as near as it can hang.

“Q. We have in this model which you have produced and which is a derrick, as I think Exhibit 3, there are nine girts, not counting the top girt; is that correct?      A. That is right.

“Q. And the spooler in this model is above opposite the third girt?

“A. That is right; it is the center of it.

“Q. The center of the third girt, the center of the spooler?      A. That is right. [191]

“Q. If you attached a hanging line to the fourth girt, would that hanging line function in the manner that you describe in your patent?

“A. Yes. As I just got through saying, some drums are set farther out on the floor than others. Some drums, the fourth girt would be perfect for hanging it.

“Q. So it is your statement that, regardless whether the hanging line is attached to the fourth girt or the fifth girt or the sixth girt or the seventh girt, as shown in your Model Exhibit 3, that the hanging line would function——

(Deposition of Perry M. Moss.)

“A. On the first girt?

“Q. To bring the line spooler in line so that the line spooler would clear not without undue friction.

“A. It would be some friction there. Very little.

“Q. What do you mean by some friction?

“A. Well, there is bound to be friction, to spool the line, because it is a-whippin. You couldn't get away from some friction.

“Q. But your statement is that outside of the friction caused by the whipping of the line, that, if there was not any whipping, it would pass freely through there with your hanging line attached as you state in your patent?

“A. Yes, if you tie it up high enough for it to line up with your drum and where it takes the friction off of your line. [192]

“Q. Well, it is my understanding from your patent that you want to hang that so that it will so hang that there is not any friction on the line, isn't that correct?

“A. There is bound to be some friction. You couldn't get away from some friction.

“Q. Well, let's say that there is some friction when it is attached to the girt to which it is now attached—one, two, three, four, five, six, seven—will you agree there is some friction there?

“A. Yes, sir, there is some. There is bound to be, from the line.

(Deposition of Perry M. Moss.)

“Q. Would there be more friction if it was attached to the sixth girt? A. Yes.

“Q. And would there be still more friction if it was attached to the fifth girt?

“A. Yes, the spooler wouldn't function.

“Q. Wouldn't function at all?

“A. No. If you pulled it back out of line, if you pulled it like there, your rubbers would burn out within two or three stands. If you pulled that back out of line, say, like that (indicating).

“Q. Then you say it wouldn't function?

“A. No, sir.

“Q. Now, Mr. Moss, will you agree that, if the hanging [193] line is attached in the center—let's assume that there was an eye in the center in the model Exhibit 3, if there was not any stabilizer at the side, will you agree that that spooler would assume a horizontal position, if it was in the center?

“A. If you put it here?

“Q. Yes. A. It would lay flat.

“Q. Yes, but it cannot lay flat, can it, when the stabilizer is attached? A. On the side?

“Q. Yes.

“A. No, not exactly flat. It couldn't lay——

“Q. And, as you would put successive eyes between the middle and the top, it would have more of a tendency, it would have the same tendency to come away from the vertical with the hanging line attached, wouldn't it? In other words, instead of having an eye at the center, if you had an eye between the center and where you now have the eye

(Deposition of Perry M. Moss.)

in this model, it would still have a tendency to come away from the vertical with a hanging line attached?

“A. It would help it some. It wouldn’t lay flat as quick, but it would help some if you had it raised up part of the way.

“Q. Yes. A. Yes. [194]

“Q. In other words, the angle between the hanging line and the wire rope is very important, is it not? A. The hanging line, you say?

“Q. The angle. A. The angle.

“Q. The angle between the extended hanging line where it meets the wire line through the spooler and the spooler, that angle included between the hanging line and the wire line is very important, is it not? A. That is right.

“Q. Now, does the fact that the line travels in winding on the drum side by side and doesn’t have any influence at all upon the way in which the spooler hangs?

“A. Well, it travels back and forth.”

Mr. Caughey: I don’t think that question was read correctly.

The Court: No; that was misread. Start over again.

Mr. Joseph F. Westall: “Q. Now, does the fact that the line travels in winding on the drum side by side, does that have any influence at all upon the way in which the spooler hangs?

“A. Well, it travels back and forth. The



(Deposition of Perry M. Moss.)

spooler has got to travel backward and forth as the line spools on the drum. [195]

“Q. And changes the angle, does it not, both of the hanging line and of the wire line through the spooler?”

“A. It wouldn’t change it, no. Nothing changes the hanging of it. It still hangs the same.

“Q. I am talking about the angle.

“A. No, it doesn’t change that angle.

“Q. It doesn’t change that angle, but it does change the position of the spooler in so far as, and also of the wire line, in so far as the distance from each side of the derrick is concerned?”

“A. It changes it because your drum gets filled up with line.

“Q. And how long are those drums, Mr. Moss?

“A. Well, some of them are about three, some of them are about four feet. The old-timers used to make them about five feet wide. But most of them now are around three, three and a half, two, something like that. I never measured one.

“Q. So that we would have a travel line that is on a drum of three or four feet, depending upon what the length of the drum was?”

Mr. Caughey: I don’t think you read that correctly.

Mr. Joseph F. Westall: “Q. So that we would have a travel of the line that is on the drum of three to four to five feet, depending upon what the length of the drum was? [196]

“A. The old-timers, many years ago, it was

(Deposition of Perry M. Moss.)

about four and a half, five feet. They use about three feet. It would make that much difference, three feet in the travel of the spooler.

“Q. Now, prior to the time that you actually made one of these spoolers of yours, as you state, on April 5, 1937, did you see any spoolers in operation in the field?” [197]

\* \* \*

Mr. Joseph F. Westall: Just before the adjournment, I had read, or should have read, a correction in the deposition, which is shown at page 93 of the deposition. The answer should be, “I did not make the spooler as assumed by the question on April 5, 1937. That was the date I sold an actual device, which I had completed in November, 1936, to Holly Oil Company. Prior to that time I did not sell any such spooler anywhere.”

Mr. Caughey: “See.”

Mr. Joseph F. Westall: “See any such spooler anywhere.” This correction is made and shown at the bottom of page 93.

The Court: Where are we now?

Mr. Joseph F. Westall: We are on page 57, at the top of page 57.

The Court: Do you want to make a correction now?

Mr. Joseph F. Westall: I just simply have stated that the correction was made and I so read it at the time I read the deposition. At the top of page 57, “Q. Did you know of any spoolers which had been made, or heard of any?

(Deposition of Perry M. Moss.)

“A. I seen some eight or ten years before that, some rough made—impractical. They throwed them out and junked them. [198]

“Q. Have you seen any spoolers which had been put out by Patterson-Ballagh prior to April 5, 1937? A. No.

“Q. Had you heard of the activities of Mr. Reed, who was the inventor of the patent which has been introduced in evidence as Moss Deposition Exhibit 2, prior to that date? A. No.

“Q. When was the first time you ever saw a Patterson-Ballagh spooler?

“A. It was in the—along in 1936, about three days before Christmas, at El Segundo.

“Q. Will you please describe that?

“A. That spooler?

“Q. Yes.

“A. That was a steel cylinder about twenty-eight or thirty inches long, with flanges welded on the side, and those flanges having holes drilled through them to hold it together, and on the side you have the bridle means, which there is a line attached to every bridle. The line goes out to the sides of the derrick, down through a pulley, and the end of that line is attached to a weight on each side of the spooler, and on the top, on the middle of it, it has an eye for a hanging line to hang it in the derrick with, which makes it out of balance and impractical.”

Then Mr. Caughey moves to strike “out of bal-

(Deposition of Perry M. Moss.)

ance and impractical." [199] Do you press that motion now?

Mr. Caughey: Yes; I press that motion now. It certainly wasn't responsive.

The Court: That word "dirt" is supposed to be what?

Mr. Joseph F. Westall: It is supposed to be "derrick."

The Court: The last voluntary statement may be stricken or the word "impractical."

Mr. Caughey: And "out of balance." The whole statement, the latter part, is what I was referring to as not responsive.

Mr. Joseph F. Westall: You didn't move at that time to strike out "out of balance,"

The Court: He has a right now to make that objection or motion. I suppose you reserved your objections when you took the deposition?

Mr. Joseph F. Westall: That may be so.

The Court: That may be stricken, "out of balance and impractical."

Mr. Joseph F. Westall: "Q. Now, you state that date was what when you saw this?

"A. It was in 1936, about three days before Christmas.

"Q. And where did you see it?

"A. At El Segundo.

"Q. What well?

"A. On the Republic Oil Company. I don't just remember [200] what well it was.

"Q. Did you examine that spooler?

(Deposition of Perry M. Moss.)

“A. No, sir; it was up in the derrick.

“Q. Did you ask whose spooler it was?

“A. I did not.

“Q. Did you know whose spooler it was?

“A. No.

“Q. How did that spooler compare with the drawings of the Reed Patent Exhibit 2?

“Mr. Westall: What are you talking about?

“Mr. Caughey: I am talking about the one that he saw in December, 1936.

“The Witness: This is it right here (producing a paper).

“Q. (By Mr. Caughey): In other words, as far as you can tell, it is substantially the same as that shown in Figure 2 of the Reed patent, is that correct? A. That is right.

“Mr. Westall: What was the date of that?

“The Witness: December, 1936, just three or four days before Christmas.

“Q. (By Mr. Caughey): Now, Mr. Moss, did that device that you saw at that time have any lower safety line on it, that is, a line leading attached to the lower part of the spooler and to a lower girt below the spooler?

“A. I didn't see any, no. [201]

“Q. You just saw the hanging line above?

“A. That is right.

“Q. And how high was that hanging line above the spooler?

“A. I didn't pay a whole lot of attention. It was four or five girts above the spooler.



(Deposition of Perry M. Moss.)

“Q. And the ordinary distance between girts is about 10 feet?

“A. It is, roughly speaking, I would say, about seven and a half or eight feet.

“Q. So it was at least thirty feet above the spooler, is that right?

“A. Yes, approximately.”

Beginning with page 60:

“Q. And was that line taut, that hanging line?

“A. It was tight.

“Q. A taut line?                      A. Yes.

“Q. Did you ever see a spooler in the field subsequent to December, 1936, which had three eyes, one at the top, one in the middle, and one at the bottom?

“A. The first one I seen was in October, along in 1937.

“Q. And was that a cast iron spooler—cast spooler?

“A. It was up in the derrick. I don't know.

“Q. You don't know?

“A. I don't know. [202]

“Q. And where was the hanging line attached in that device?                      A. On top.

“Q. And was there a lower safety line attached to the lower spool?                      A. There was.”

And here was another correction that he made, at page 94, which I shall put in if counsel doesn't object. To the question, “Was there anything attached to the middle spool?” he answered, “No,”

(Deposition of Perry M. Moss.)

but, when he corrected it, he added, "not to the middle eye, if that is what you mean."

"Q. Where was that well that you saw that on?

"A. That was for the Taft Well Drilling Company at Rosecrans.

"Q. In Rosecrans. That is the closest information you can give, is that right?

"A. That is right. They are broke now and out of the picture, they say.

"Q. It was installed and in operation, was it?

"A. That is right.

"Q. Did you make any inquiry as to how long it had been installed?

"A. No, I didn't ask any questions.

"Q. You didn't ask any questions at all?

"A. No. [203]

"Q. And I think you previously stated that you didn't get up in the derrick and look at it closely, is that right?      A. No.

"Q. So therefore you don't know whether there was any name stamped on it or not?      A. No.

"Q. And was the hanging line taut in that device?      A. Yes.

"Q. And how about the lower safety line, was that a loose line?      A. It was a loose line.

"Q. Now, one of the purposes for having a hanging line, regardless where it is attached, is to prevent the spooler from riding down on the wire rope, isn't that so?      A. That is right."

Then, at the top of page 62:

"Q. Because, otherwise, it might go down so far

(Deposition of Perry M. Moss.)

as to drop weights into the ground or so that they would hit something solid?

“A. If the safety line didn’t catch it, yes.

“Q. In other words, if the lower safety line didn’t catch it?

“A. That is right, if this hanging line broke, if it didn’t catch it.

“Q. And the function of the lower safety line is not [204] only to catch it if it goes down, but it is also to prevent the spooler from riding up on the line?

“A. That is right; it answers as a safety line and a hold-down line.”

Then, near the bottom of page 62:

“Mr. Westall: Mr. Moss wanted to make a statement about one of his answers.

“Mr. Caughey: All right.

“The Witness: Mr. Caughey, if I made a statement I made my spooler before I seen the Reed patent, that is wrong. I started making my spooler November 23, 1936. I got the stuff to make it with the same day from Mr. Terry at Huntington Beach.”

At the top of page 63:

“Q. (By Mr. Caughey): But you never completed it?

“A. I completed it within four days and took it back down to Huntington Beach, and Mr. Terry seen it, and Mr. Mack—I will call him, I don’t know his other name—they seen this spooler completed without the bearings. I took the spooler

(Deposition of Perry M. Moss.)

down, thinking I would put some of that eucalyptus hardwood in the spooler for the bearings, and I changed my mind, I didn't use the eucalyptus hardwood, and I got some old rubber core pushers and put in for rubber liners. I got mixed up when I sold the first one. That is where I got my dates mixed up. That is correct. I can prove it by two witnesses. [205]

"Q. Your present testimony is then that April 5, 1937, was the date you first sold one, is that correct?

"A. I put it on the rig for a trial. Mr. Anderson bought it within three or four days—in fact, he bought two the same month.

"Q. How soon after you put it on the rig for a trial did you sell it?

"A. We decided in three or four days he would take it, and he started another well in Wilmington, California. Holly——

"Q. Then it is your present testimony that around November 23, 1937, that you actually made a spooler and took it down to Huntington Beach without the bearings in it?

"A. My date was November 23, 1936.

"Q. '36—beg your pardon. I didn't mean to confuse you.

"A. Mr. Terry gave me the stuff to make the spooler with—in fact, I got the stuff from him. I brought it to Long Beach and took it to the shop and I had it milled and took it home and lined it up. I said nobody seen it. The welder seen it. I

(Deposition of Perry M. Moss.)

took it to the welding shop and had him weld it up, and the fourth day after Mr. Terry gave me the pipe I taken it back down to Huntington Beach and that is when I was going to put the bearings in. That was the 27th of November when I took it back down and Mr. Terry seen it and a fellow by name of Mack. [206]

“Q. Did you actually try that out on a well?

“A. That was the spooler I sold Mr. Anderson, the first one.

“Q. On April 5, 1937?           A. Yes.

“Q. What did you do between November 27 and April 5, 1937, in so far as trying it out? Where was it?

“A. Well, he bought that one on that rig, that was for the Holly Oil Company, and I sold one for the Holly Development.

“Q. When you say ‘he,’ to whom do you refer?

“A. Mr. Anderson.”

At the top of page 65:

“Q. Is Mr. Anderson the one you showed it to on November 23, 1936?

“A. No, sir, he didn’t see it. Mr. Terry.

“Q. All right. Now, my question is, between November 23, 1936, and April 5, 1937, what, if anything, did you do in connection with trying out the spooler?

“A. I didn’t try any because I didn’t want to put it on a rig before I knew the men, so it would get a fair chance.



(Deposition of Perry M. Moss.)

“Q. Didn’t you know the men down at Huntington Beach—Mr. Terry?

“A. Yes, I knew him.

“Q. Why wouldn’t that rig have been satisfactory? [207]

“A. Mr. Terry was a gang pusher. He didn’t have anything to do with the drilling.

“Q. Now, when you tried it out on April 5, 1937, what kind of bearings were in the spooler?

“A. They were rubber bearings.

“Q. And you changed the bearings in the meantime?

“A. No, I took it down to Huntington Beach to make the hardwood bearings out of the eucalyptus hardwood. That is when Mr. Terry and Mr. Mack seen it, and I changed my mind; I got some old rubber core pushers to put in to try out.

“Q. Were those same rubber core pushers in it when you sold it to Mr. Anderson?        A. Yes.”

At the top of page 66:

“Q. Then, as I understand your testimony, you never actually tried out the spooler on a rig, installed on a rig with the counterweights attached and the hanging line attached to the derrick, until on or about April 5, 1937?

“A. That is right.

“Q. In other words, the whole installation was not complete on a rig until that date?

“A. Yes, it was complete, the spooler was complete, made complete.

“Q. On a rig?

(Deposition of Perry M. Moss.)

“A. On a rig, that is right. [208]

“Q. Did you take any counterweights down to Huntington Beach with you in November, 1936?

“A. I took the whole thing, the pulleys and all, the whole complete setup as it is.

“Q. Did that include the counterweights?

“A. Yes, sir.

“Q. What was the weight of the counterweights?      A. About forty pounds.

“Q. Forty pounds each?      A. Each.

“Q. And what was the weight of the spooler?

“A. A hundred pounds, around a hundred pounds. I never did weigh it up until I got my patent.

“Q. And what were the counterweights made of—just solid iron?

“A. Piece of pipe filled with cement.”

At the top of page 67:

“Q. How did you determine what counterweights to use?

“A. By being a practical man in the field, I figured that would be just about right, with the old chain they used to use.

“Q. The old chain they used to use as a dampener, you mean?

“A. Yes, or line guide, either one you want to call it.

“Q. Well, now, between the date you made the disclosure, [209] as you testified on the invention in May, 1936, and the date when you testified you commenced manufacturing or making the spooler

(Deposition of Perry M. Moss.)

in November, 1936, what, if anything, did you do?

“A. At the time I mentioned it to Mr. Anderson, I had it in mind. I didn’t do anything until I got the thing pictured in my head how I was going to make it, and November 23, as I said, I went down to Huntington Beach and I got the stuff November 23, 1936. I got the stuff from Mr. Terry to build it with, the gang pushers.

“Q. Then, what you actually disclosed to Mr. Anderson in May, 1936, was really the idea of having a spooler. You didn’t explain the construction to him, did you?

“A. Very thoroughly. I explained it very thoroughly.

“Q. Why did you have to have all that time to get an idea how you wanted to make it if you had it very thoroughly in mind?

“A. Well, I wanted to put it on a rig, as I just stated, where I knew somebody and it would get a fair chance, a fair trial.

“Q. That is the best answer you can give to the question?           A. Yes.

“Q. Did you explain to Mr. Anderson the importance of placing the hanging line and eye or socket at the top of the spooler? [210]

“A. I did.

“Q. And when did you do that?

“A. When I made the—when did I explain to Mr. Anderson?

“Q. Yes.           A. April 16, 1936.

“Q. You are sure it was not May 16, 1936?

(Deposition of Perry M. Moss.)

“A. No, sir, it was in April, the 16th, 1936. Or May, 1936.

“Q. Now which one was it?

“A. It was May 16, 1936.

“Q. You are sure of that?           A. Yes, sir.

“Q. It was not April?           A. No, sir.

“Q. Then you were mistaken?

“A. I was mistaken.

“Q. Did you make any drawings of this spooler prior to November, 1936?

“A. I didn't make any drawings.

“Q. Did you make any subsequent to it?

“A. No.

“Q. Then the first drawing that was made of the spooler was the one that was in the patent application, is that right?

“A. That is the first one that was made. Only that [211] shop school I told you about; he made a rough drawing, a shop drawing of it.

“Q. You are talking about the shop, you are talking about Mr. Rhodes, is that right?

“A. That is right, Rhodes; he made a shop drawing of it roughly himself, voluntarily.

“Q. And that was in April, 1937?

“A. I just don't say what date that was. There was two or three spoolers made. I had already made two or three spoolers when he made this shop drawing.

“Q. So you can't give that date?

“A. I don't recall whether there was a date on the shop drawing when he give it to me or not.

(Deposition of Perry M. Moss.)

“Q. Do you still have that shop drawing in your possession? A. My attorney has it.

“Mr. Caughey: May I inquire from counsel whether there is a date on that shop drawing?

“Mr. Westall: I don’t remember, Mr. Caughey. I haven’t the shop drawing here because I didn’t think it would be of very great importance in this examination. If it is, I will produce it later.

“Mr. Caughey: If I wish to have a photostatic copy of it at any time, will you be willing to furnish it?

“Mr. Westall: I think so. I think I can furnish a copy [212] of it.

“Q. (By Mr. Caughey): Now, in your patent, Mr. Moss, which is Exhibit 1, at the bottom of the first page, the second column, and running over onto the second page, first column, it reads as follows: ‘As the number of layers of cable helices increase or decrease on the drum 3 the slant of the line will vary consequently.’

“A. Yes, in size.

“Q. Will you explain what you mean by that statement and, if necessary, refer to the model?

“A. Well, if the drum—we will demonstrate this way, as a spool of thread, we will put it; when that travel block is down to the floor to pick up a stand, that drum has about a wrap and a half on it. When it gets up to the top of the derrick after another stand, it has six or seven wraps, makes it six or eight inches or a foot bigger, when your block is at the top of the derrick after another stand.”



(Deposition of Perry M. Moss.)

At the top of page 71:

“Q. That is true. You say the slant of the line will vary consequently. How will that increase in thickness of the rope on the drum vary the slant of the line?

“Mr. Westall: Are you talking about the length of it or the thickness?

“Mr. Caughey: Talking about the statement in the patent. That is what I am talking about. [213]

“Mr. Westall: Well, that statement in the patent says that the increase or decrease on the slant of the line will vary consequently as the number of the layers on the drum.

“Mr. Caughey: That is right.

“The Witness: That is right.

“Mr. Westall: The number of layers—it will get thicker.

“The Witness: That is right, it will get thicker.

“Mr. Caughey: That is right, the number of layers will get thicker, I agree with you, sir.

“A. Yes.

“Q. But is it your opinion that that will vary the slant of the line?

“A. Two or three degrees, not enough to notice it any to affect the spooler.

“Q. And you would have to take in the height of the derrick also, wouldn't you?

“A. That is right.

“Q. What are the heights of these derricks, approximately?

(Deposition of Perry M. Moss.)

“A. Some of them is 122 and some is 136 and so forth and so on; they vary in height.

“Q. Now, the whipping in the line, then the whipping in the line depends not only on the height of the derrick but also the weight of the line, doesn't it?      A. Yes and no. [214]

“Q. Well, explain your answer.

“A. Well, regardless of the size of the line, it would whip and the wave in it, but the heavier the line would be, it would be harder to dampen it. There would be more friction and harder on your spooler.

“Q. That may be so, but I was talking about whipping. I am not talking about dampening.

“A. The weight of the line, there wouldn't be enough difference to notice it in the whipping.

“Q. You don't think as far as the weight of the line is concerned it would have any appreciable effect on the whipping?

“A. No, not enough to notice it.

“Q. How about the height of the derrick?

“A. That would affect it some more or less. But, regardless, the spooler or how much the whip is, when it passes through that spooler, the idea of that spooler is to iron out those whips; when it goes through the spooler and onto the drum, those waves are smoothed out of it and smoothed on the drum.”

At the top of page 73:

“Q. Does the length of the spooler have any effect on the dampening of the waves?

“A. Well, yes and no.

(Deposition of Perry M. Moss.)

“Q. All right, let's assume—— [215]

“A. Pardon me.

“Q. All right, go ahead.

“A. As I said, mine was four feet. That is what I decided on. One three feet would do practically the same in the length.

“Q. Suppose it was a foot?

“A. A foot? Well, you wouldn't get very good results. Like the old chain, you wouldn't get the waves ironed out. I never seen one demonstrated of a foot. That is my idea. But I don't think so.

“Q. I am just asking you about what the effect would be of one.

“A. I never demonstrated one. I don't know. But it seems to me it wouldn't do a good job that short.

“Q. How about eighteen inches, what would be your opinion?

“A. Well, eighteen inches, it would be practical.

“Q. What is your opinion as to whether the size of the diameter of the wire line as compared to the size of the groove is concerned, whether that would have any effect upon the dampening?

“A. You mean the hole in the rubber?

“Q. That is correct?

“A. Yes. As the rubber gets wore out and it gets sloppy, you don't get good results as you would if the rubber [216] was new, and I said before it would be a quarter-inch clearance around that line, not on one side, but all the way around it. You

(Deposition of Perry M. Moss.)

would get better results than if the rubber was half wore out or wore out.

“Q. You mean there would be larger clearance when the rubber is worn out?

A. That is right.

“Q. And in your opinion a quarter-inch clearance will give you the best results?

“A. That is right. But they usually wear them out until they get them wore down—the companies do.

“Q. Suppose the clearance or the bore through the spooler is approximately the same as the outside diameter of the wire line, what would be your opinion as to whether that would effectively dampen the vibrations?

“A. You mean the line being the same size as the hole in the rubber?           A. Yes.”

The Court: May I interrupt at this time? What is meant by the expression “dampen the vibrations”?

Mr. Joseph F. Westall: It keeps them from vibrating.

The Court: I see the word “dampen” used frequently.

Mr. Joseph F. Westall: It just cuts them down and irons them out.

Mr. Caughey: It smooths them out. [217]

The Court: The word “dampen” means to soften or to eliminate, does it?

Mr. Caughey: Yes.

Mr. Joseph F. Westall: When they go through the spool, they are eliminated.

(Deposition of Perry M. Moss.)

“A. If it was the same size, you wouldn’t have any clearance. It would squeeze it together. Therefore, you would have a friction hold on it and chances are if you have a friction hold you burn the clearance, so that the line would run through the spooler. The chances are you would break this hanging line.

“Q. You don’t think it is practical not to have clearance?      A. It is practical to have clearance.

“Q. In other words, you should have clearance?

“A. That is right. That is practical.

“Q. You think it is not practical not to have clearance?      A. That is right.

“Q. You talk about burning it. What do you mean by that?

“A. Well, you spoke as a hole in the rubber is the same size as the line.

“Q. Yes.

“A. You wouldn’t have any clearance then, would you?

“Q. No. [218]

“A. Well, you would have to pull your blocks up and down, and if this line would hold long enough and the hanging line wouldn’t break the friction from pulling the line through it would burn that rubber enough so you would have a clearance.

“Q. Let’s assume you burned it enough so that you do have a clearance and the hanging line holds just enough so that you would have a clearance, do you think that would be a practical device then?

“A. No.



(Deposition of Perry M. Moss.)

“Q. When you would have a spooler where you just had clearance after burning it in and you had the hanging line, do you think that hanging line would function the same way your hanging line as shown in the patent? A. After it is burned?

“Q. After it is burned and just does clear?

“A. It would burn its clearance if this line would hold out.

“Q. Yes.

“A. Within a short time, within ten or fifteen stands, it would burn enough clearance, if you had it that tight so that it would do its proper function.

“Q. You think it would function?

“A. If this hanging line didn't break.

“Q. Yes. But it is your opinion the hanging line would [219] probably break?

“A. Like you are talking, yes.

“Q. Now, frequently, they have more than one line spooling rig, don't they?

“A. Once in a great while you see two. I have never seen two on a rig. I have seen the pictures with two, but I have never seen two spoolers on a rig.

“Q. So then you don't have any practical experience at all as to whether two spoolers have ever been used on a rig?

“A. No, only the pictures. I have never seen them. I have been out in the field until I got sick, every day, even through Texas and through the Mid-Continent and down in Louisiana.

“Q. Now, you made a statement that the struc-

(Deposition of Perry M. Moss.)

ture shown in the Reed patent, the spooler shown in the Reed patent, wherein the spooler had an eye socket in the middle and the hanging line was attached there, that that was not a practical device.

“A. No.

“Q. Would you please explain why you made that statement? What is your opinion as to that and give the reasons?

“A. Well, the spooler is out of balance.

“Q. What do you mean by out of balance?

“A. Out of balance. Hanging this spooler from here, the weight of it, it weighs a hunderd pounds, and this hanging [220] line got the weight of the spooler at all times, it would make friction on the top and bottom of your spooler, and therefore you wouldn't have a balanced spooler and you wouldn't get good results.

“Q. Is it your opinion that the hanging line is the only thing that supports the spooler?

“A. This hanging line is the only thing supports it to hang in the derrick.

“Q. What do the counterweights do?

“A. The counterweights is to stabilize and give you vibration back and forth as those coils go back and forth across the drum.

“Q. Do you mean to say if the hanging line was taken off there the spooler wouldn't be supported?

“A. No, sir.

“Q. Are you sure of that statement?

“A. No, sir, it wouldn't be supported.

(Deposition of Perry M. Moss.)

“Q. What would it do? Would it go all the way down to the floor of the derrick then?

“A. There is no oil man or driller with any ability would put that spooler up without this hanging line. The State Safety Commissioner, I feel definitely, wouldn't allow it.

“Q. I don't know what the State Safety Commissioner would do and I don't think we had better speculate on that. [221] A. O. K.

“Q. But you have never seen any spoolers in the field without hanging lines on them?

“A. No, sir.

“Q. And it is your opinion that if the hanging line was off that the counterweights wouldn't support the spooler on the line?

“A. No, sir. It would drop partly down and it would be unsafe.

“Q. How far do you think it would drop down?

“A. Well, it would drop down, we will say, a couple of feet from where it is hanging, and it would be flopping in the rig like a car loose on the street. It would be a death trap.

“Q. It would drop down a couple of feet?

“A. Well, I have never seen one run that way. That is my guess. We can turn it loose and see how far it would drop.

“Q. Well, wouldn't the line at the center prevent it from dropping down just as well as the line at the top? A. You mean this hold-down line?

“Q. No.

“A. You mean the hanging line?

(Deposition of Perry M. Moss.)

“Q. The hanging line from the center as shown in the Reed patent, wouldn't that prevent it from dropping down just the same as the line from the top? [222]           A. Yes.

“Q. Then in so far as preventing it from dropping down, they have the same function, don't they?

“A. From dropping down, it is the same function, yes, sir.

“Q. So as far as the hanging line being practical to accomplish the result of preventing it from dropping down, they are just about the same, whether it is in the middle or whether it is at the top, they both do that?

“A. They both keep it from dropping down.

“Q. Where is it impractical then to attach the line at the center?

“A. Because, if your spooler is not practical, your spooler is out of balance, makes friction on the top and bottom of your spooler.

“Q. In other words, you are saying that the line at the center would cause the spooler to tilt so that it would make friction both at the top and the center, is that right?

“A. Both at the top and center, that is right. If you wish, I will tie it at the center and show you.

“Q. I understand what you mean. But will you agree that it would be less friction than if there were no hanging line at all?

“A. No, it would be more friction than ever.

“Q. It would be more friction if it were at-



(Deposition of Perry M. Moss.)

tached to [223] the center than if there was not any hanging line at all?

“A. If there was not any hanging line at all. This hanging line has got to be attached to hold that line and spooler, regardless, at the top and bottom at all times, to make it function properly.

“Q. Let's assume you didn't have any hanging line.       A. O. K.

“Q. Let's make that assumption, and let's assume that the wire line is through the bore of the spooler and that the counterweights are sufficient to hold it in place with the two-foot sag that you talk about, let's assume that; is there more friction on the line when there is no hanging line as I have assumed, or when the hanging line is attached to the center as shown in the Reed patent?

“A. Is there more friction on the center, as I get you right, on the Reed patented derrick from the top hanger—is that the question?

“Q. No, that is not the question.

“A. Will you please repeat it?

“Q. I will try to make it clear. Maybe I didn't make it clear. Assume, in the first place, that there is no hanging line at all, let's make that assumption, and that the wire line is going through the spooler and that the spooler is substantially kept in position by the counterweights. Let's assume that. [224]

“A. Yes.

“Q. Now, there would be a certain amount of friction on the line, between the line and the spooler, wouldn't there?



(Deposition of Perry M. Moss.)

“A. You still are talking about this hanging line, aren’t you?

“Q. No, there is no hanging line at all.

“A. You don’t want any hanging line?

“Q. No.

“A. Yes, there would be more friction—some, but very little with that hanging line.

“Q. Forget the hanging line. I am not talking about the hanging line.

“A. You are talking about just the weights holding it up?

“Q. That is right.

“A. Yes, there would be more friction.

“Q. Where would that friction be in so far as the top, the middle or the bottom of the spooler is concerned?      A. It would be on top and bottom.

“Q. All right. Now, we will take a situation where we have the spooler in place with the counterweights and the bridle and we have a hanging line attached at the center, as in the Reed patent; there would be a certain amount of friction then, would there not?      A. Yes. [225]

“Q. And I believe you previously testified that friction would be at the top and the bottom?

“A. Top and bottom.

“Q. Is there more friction in the first case I assumed, or where there is a hanging line in the center?

“A. The first one without the counterweights—with the counterweights.

“Q. And no hanging line?

(Deposition of Perry M. Moss.)

“A. And no hanging line, would be more; would be but very little difference, but would be a little more with the counterweights without the hanging line, but there would be very little difference.

“Q. If we raise that socket up so that it is half-way between the middle and the top, then there would be less friction, would there not?

“A. Yes, there would be less friction. That would take part of the friction off it, make it have a tendency to hang straight.

“Q. When you say hang straight—

“A. Hang perpendicular with the line, the same degree as the line, as near as you can get it, it would help some.

“Q. And would it make any difference in so far as the friction on the spooler is concerned or between the line and the spooler, whether the spooler had moved to the right or to the left? [226]

“A. There would be some, but very little.

“Q. And that spooler does move from the right to the left, depending upon the winding of the drum, does it not?      A. Yes.

“Q. Have you ever seen a case where a derrick was out of balance, tipped or something, where it had a spooler in it?

“A. No, sir. They don't run them that way.

“Q. You would be surprised?

“A. I never seen a derrick tipped and the rig fall over yet, being run.

“Q. I didn't say fall over.

“A. You said tipped. Not the derrick—it is

(Deposition of Perry M. Moss.)

never tipped.

“Q. Sagging on one side?

“A. Well, if it is tipped, sagging on one side, they couldn’t run it. It would be dangerous. They would have to fix it.

“Q. You stated you are ill at the present time?

“A. That is right.

“Q. How long have you been ill?

“A. I have been ill for about six months.

“Q. Prior to that time you were in good health?

“A. Not in good health, no. I have been ill for about six months. I would go out in the field from time to time, but I have been under the doctor’s care constantly for the [227] last two months, with my feet up in the air and in my bed, elevated at eighteen inches, and lay flat on my back, with no pillows, and I came up against my doctor’s protest. I said I had to go, because I didn’t feel I had very long left, and I wanted it for the wife.

“Q. I don’t want to go into detail of your sickness.      A. That is the fact.

“Q. I merely asked you how long it had been, because that has a bearing on what I want to ask you.      A. O.K.

“Q. Now, you stated Mr. Cameron was killed in an automobile accident, I believe, in 1942 or some such time?      A. That is right.”

At the top of page 85:

“Q. Did you go to another attorney after he had been killed?      A. Yes; Mr. Westall.

“Q. How soon thereafter?

(Deposition of Perry M. Moss.)

“A. About three years.

“Q. You knew, did you not, Mr. Moss, prior to the issuance of your patent, that Patterson-Ballagh was manufacturing devices such as shown in the Reed patent and you had information which led you to believe that they were probably hanging those from a top socket? You knew that, didn't you?

“A. I never seen a Patterson-Ballagh line spooler until [228] I got my line spooler made.

“Q. That was not my question.

“A. Let's have it again, please.

“Q. My question was, prior to the issuance of your patent, which was in 1940, February 20, 1940, you were fully familar with the fact that Patterson-Ballagh was manufacturing and selling line spoolers, wherein you had good reason to believe they were fastening the hanging line from the top?

“A. 1940, did you say?

“Q. Prior to the issuance of your patent, prior to that.       A. Yes.

“Q. You knew that?

“A. I knew that. As I stated in my early statement, two or three days before Christmas in 1936.

“Q. And you knew from the time that you sent this, or had Mr. Cameron send this notice to Patterson-Ballagh in 1940 and up to the time that you filed the action, you knew they were continuing to manufacture line spoolers which you claimed to be an infringement; you knew that, did you not?

“A. Yes.

“Q. Now, you referred to seeing certain advertising which you were of the opinion was put out

(Deposition of Perry M. Moss.)

by Patterson-Ballagh, and your attorney has offered in evidence certain [229] advertising material which you examined. Of that advertising material, what had you seen prior to the time that these notices of infringement were sent out?

"A. What part of the spooler?

"Q. What particular advertising had you seen?

"A. I first noticed the advertisement in October, 1937, and, as I said, by seeing them in the field.

"Q. That advertisement in 1937, what was that in—do you recall?

"A. I don't recall. I have it. I don't recall. These photostats out at the library at Long Beach. I can get the books.

"Q. I am not asking you where they are. I am asking you when you saw them.

"A. Yes, that is when I saw them.

"Q. Did you see any other advertising prior to the sending of this notice of infringement other than the October, 1937?

"A. Only the Reed patent. I seen it advertised. I seen it in the field.

"Q. So you actually saw it in the field?

"A. And seen it advertised, yes.

"Q. And, as you testified, you didn't know who was putting out that structure, you didn't even make any inquiry, did you? [230]

"A. No, I didn't make any inquiry.

"Q. Well, what led you to believe it might be Patterson-Ballagh?



(Deposition of Perry M. Moss.)

“A. Not when I first seen the first one, but when I began to see them, I began to ask, ‘Who is putting that spooler out?’

“Q. When did you first inquire as to who was putting that particular spooler out—what time?

“A. Well, it was along the first part of 1937, the first month. I don’t know just what date it was, though.

“Q. And when you found out, it was Patterson-Ballagh that was supposed to be doing it?

“A. The man said on the rig it was Patterson-Ballagh Corporation.”

At the top of page 88:

“Q. Did you ask them at that time how long they had been using them?      A. No.

“Q. Did you make any inquiry otherwise as to how long Patterson-Ballagh had been manufacturing and selling this spooler which was, as you testified, appeared to be substantially the same as the drawing of the Reed patent?

“A. No, I made no inquiry. I just read the advertising and seen them in the field and the date on their advertisement. [231]

“Q. When did you first see a line spooler which you believed was manufactured and sold by Patterson-Ballagh where the hanging line was hung from the top of the spooler? When did you first see that?

“A. I seen that it was 1937, the last part of the year. I just don’t recall what date it was. At Rosecrans on a Taft well drilling rig.

(Deposition of Perry M. Moss.)

“Q. Did you make any inquiry as to how long they had been hanging the line from the top?

“A. No.

“Q. Did you talk to the men on the rig about it?

“A. No, I didn't know the men.

“Q. Did you see any subsequent line spoolers hung in that fashion after 1937?

“A. You mean did I see any?

“Q. After you saw the first one.

“A. Did I see any difference in them, you mean?

“Q. No, I am not asking you that. After you saw the first one, did you see some more in the field? A. Yes, I saw some more.

“Q. At any time did you make any inquiry from any persons who were associated with the rig in which those were hung, did you make any inquiry as to how long they had been using them or why they were hanging them that way?

“A. No, because I knew from being an oil man the spooler [232] had to be hung to get the——

“Q. In other words, you knew as a practical man in the oil field seeing that spooler, would know that it should be hung from the top, is that right?

“A. That is right. If they take that spooler out and throw it on the dirt floor, with the three hangers on it, any practical oil man would hang it from the top hanger.

“Q. And any practical oil man would know, would he not, if it had just a hanger or socket in the middle, that it would be better to hang it from the top? A. That is right.

“Mr. Caughey: That is all.

(Deposition of Perry M. Moss.)

**“Redirect Examination**

**“By Mr. Westall:**

“Q. You have just stated that any practical man would know that the hanging line should be at the top of the spooler. Would any practical man, before you incorporated in your application and your patent, would any practical man have known it before that time, before you invented it?

“A. Well, it was not practical to put it in the middle.

“Q. It was not practical to put it in the middle?

“A. That is right. I have witnesses where the old ones have been cut off and put on top. I have witnesses where the old Reed patent was cut off by the oil men and put on top and used it, so it would be balanced. Do you want the [233] names and the companies?

“Q. Well, when did they say that, when did that occur that they said they did. Was that before your invention?

“A. That was after my invention.

“Q. Yes.           A. Yes.

“Q. You say any practical man before your invention would know that should be hung from the top, particularly when they manufactured the Reed with it hung from the middle for a long time?

“A. That is right, any practical man would know the spooler wouldn't balance, and hung it from the top.

“Q. After you invented it?

(Deposition of Perry M. Moss.)

“A. After I invented it, that is right.

“Q. And they didn’t know it before you invented it?      A. That is right.

“Mr. Caughey: Just a minute. You know as well as I do that isn’t proper examination.

“Mr. Westall: No, I don’t think so.

“Mr. Caughey: I will leave it to the court.

“Mr. Westall: He has testified. He hasn’t specified the time. He now specifies.

“Mr. Caughey: Well, you ask him the time by proper and not leading questions.

“Mr. Westall: He is now testifying they didn’t know that [234] before he invented it.

“Mr. Caughey: Well, you are not cross-examining him.

“Mr. Westall: No, I am asking redirect.

“Q. Then when did any practical man in the oil field know that it should be hung up with respect to the date of your invention of this device, when with respect to it?

“A. Well, you could see them in the junk pile, the first Reed patent.

“Q. No, I mean——

“Mr. Caughey: Let him answer, please.

“The Witness: The first Reed patent, most of the companies abandoned and they are in the junk pile. There was some few cut off that hanger in the Reed patent and put it on top so it would balance, after I made my spooler. I never seen one that was cut off and put on the top until I made my spooler and put it out with the hanger on top.

(Deposition of Perry M. Moss.)

“Mr. Westall: That is all.

“Mr. Caughey: That is all.

“The Witness: May I be excused to go home?

“Mr. Westall: Yes.

“The Witness: Thanks a lot.”

Now, we have over here these corrections which the witness made, which maybe I should read, but they have been inserted as we went along.

The Court: I think I have made note of [235] those.

Mr. Joseph F. Westall: Shall I read them?

The Court: Yes. You might turn to the pages and see if we have them.

Mr. Joseph F. Westall: This is page 93:

“I, Perry M. Moss, who gave the foregoing deposition, as stated in the notary’s certificate, have read the said deposition and wish to make the following corrections:

“(1) Page 3, line 21: Strike out the words ‘rejected me’ and insert in lieu thereof ‘objected to my.’

“(2) Page 5, line 14: Strike out the words ‘it is hung’ and insert in lieu thereof ‘the drilling line is spooled.’

“(3) Page 19, line 5: Strike out the words ‘in the dirt’ and insert in lieu thereof ‘on the girt.’

“(4) Page 19, line 17: Strike out the words ‘crown in the rig’ and insert in lieu thereof ‘to a girt of the derrick.’

“(5) Page 46, line 17: Strike out the answer



(Deposition of Perry M. Moss.)

'Yes, sir' and insert in lieu thereof 'April 5, 1937, was not the date I made the device. That was the date I sold the device to Holly Oil Company, having completed it within four days from the date I started making it, November 23, 1936, as I believe I have testified.'

"(6) Page 57, line 1: Strike out the words 'No, sir' and insert in lieu thereof 'I did not make the spooler as assumed by the question on April 5, 1937. That was the date [236] I sold an actual device which I had completed in November, 1936, to Holly Oil Company. Prior to that time I did not see any such spooler anywhere.'

"(7) Page 58, line 3: Cancel 'dirt' and insert in lieu thereof 'derrick.'

"(8) Page 60, line 20: Delete the period and add 'such a line attached to the lowermost eye on the spooler.'

"(1) Page 60, line 22: Delete the period and add 'not to the middle eye, if that is what you mean.' "

And that is the end.

The Clerk: We seem to have one more exhibit here, No. 5, but there is no reference in the transcript to it.

Mr. Joseph F. Westall: I will find it. No. 5 was a Wall Street Journal dated April 22, 1936, and we offer it in evidence. It was Moss Exhibit 5 and we now offer it in evidence on the trial of this

The Clerk: It was marked No. 5 by the notary

case as Plaintiffs' Exhibit 5.

but I could find no reference to it in the deposition.

Mr. Caughey: It was the Ballagh deposition. May your Honor please, I don't think it is very important. That is just an announcement in the Wall Street Journal that Byron Jackson acquired the assets of the Patterson-Ballagh Corporation and subsequently an amended answer was filed. I don't see what an announcement of the Wall Street Journal would be worth. [237]

Mr. Joseph F. Westall: We used that to refresh his recollection.

Mr. Caughey: No; it wasn't used for any such recollection.

Mr. Joseph F. Westall: He didn't know the date but that showed approximately the date.

Mr. Caughey: It was admitted at the time Mr. Ballagh or was offered at the time Mr. Ballagh's deposition was taken and, in view of the fact that Mr. Ballagh's deposition wasn't offered here, of course, it wouldn't appear.

The Court: Is there any objection?

Mr. Caughey: It is really immaterial.

The Court: We can't all make the front page of the Wall Street Journal.

Mr. Caughey: No, your Honor. But I don't think it is of any importance.

The Court: It may be received and marked Plaintiffs' Exhibit 5. That fact has already been put in evidence.

Mr. Joseph F. Westall: Yes; covered in evidence. Now, if Mrs. Moss will take the stand.

No. 12849

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United States  
Court of Appeals  
for the Ninth Circuit.

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PATTERSON-BALLAGH CORPORATION, a  
Corporation, and BYRON JACKSON CO., a  
Corporation,

Appellants,

vs.

PERRY M. MOSS and PHOEBE E. MOSS,

Appellees.

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Transcript of Record  
In Three Volumes  
Volume II  
(Pages 279 to 516)

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Appeal from the United States District Court for the  
Southern District of California,  
Central Division.

FILED

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MRS. PHOEBE MOSS

one of the plaintiffs, being first duly sworn, was examined and testified as follows:

The Clerk: What is your full name?

The Witness: Phoebe E. Moss. [238]

Direct Examination

By Mr. Joseph F. Westall:

Q. You are the plaintiff in this case, are you not, and are the wife of the nominal plaintiff Perry M. Moss? A. Yes.

Q. When were you married to Mr. Moss?

A. September 21, 1928.

Q. What was that year? A. 1928.

Q. From the time of your marriage and up to the present time, you have lived with Mr. Perry M. Moss, have you not? A. Yes, sir.

Q. What, if anything, did you have to do with the invention of the patent in suit and its exploitation?

A. Well, I kept the records, paid some of the bills and helped him in the garage to lay it together.

Q. And who took care of the financial affairs of the family? A. I do.

Q. Did Mr. Moss, to your knowledge, make any efforts to reduce the invention to practice by actually making and testing a device like that shown in the patent? A. Yes.

Q. Did you keep any records relating to such

(Testimony of Mrs. Phoebe Moss.)

efforts [239] or activities on the part of Mr. Moss?

A. Yes.

Q. I hand you what purports to be an original letter, on the letterhead of the Patterson-Ballagh Corporation, 1900 East 65th Street, Los Angeles, California, dated March 24, 1942, and signed by "J. C. Ballagh, Secretary," and ask that said letter be marked for identification in the record as Plaintiffs' Exhibit 19, and ask you if that is a letter which you handed me during the preparation of the trial of this case.

The Court: Is there any objection to that letter?

Mr. Caughey: No.

The Court: Do you want it marked?

Mr. Joseph F. Westall: Yes; it should be marked for identification first.

The Court: You may have it marked as an exhibit if you are going to offer it in evidence.

Mr. Joseph F. Westall: I will offer it in evidence as the next number, if there is no objection to it.

The Clerk: Plaintiffs' Exhibit 19 in evidence.

A. Yes; I recognize the letter as the one I gave you.

Mr. Joseph F. Westall: I will ask counsel, at the same time, will you stipulate that is the signature of Mr. Ballagh?

Mr. Caughey: Yes.

Mr. Joseph F. Westall: I also offer in evidence the [240] envelope in which the letter just referred

(Testimony of Mrs. Phoebe Moss.)

to, Plaintiffs' Exhibit 19, was enclosed, and ask you if that is the envelope in which the letter came addressed to Mr. Moss.       A. It is.

The Court: That may be attached to the letter.

Mr. Joseph F. Westall: That may be attached to the letter as Exhibit 19-A, perhaps?

The Court: We will call it Exhibit 19-A.

Q. (By Mr. Joseph F. Westall): Did you open that letter when it came?       A. Yes; I did.

Q. And you have had possession of it during all of the time since that time until you gave it to me?       A. Yes, sir.

Q. Were you present at any negotiations between Mr. Moss and the Patterson-Ballagh Corporation relating to a possible sale of the patent in suit or a license under it?

A. No; I was not present at any of the conversations.

Q. You were not present at any of them?

A. No. I went with him to the outside of the building but I didn't go into any conference.

Q. Since the receipt of said letter, Plaintiffs' Exhibit 19, do you know whether or not there have been any negotiations or efforts at settlement?

A. Yes. [241]

Q. Do you know when those negotiations were had?

patent [242] matters. In any event, they are leading questions.

The Court: Let's go to the next.

(Testimony of Mrs. Phoebe Moss.)

Q. (By Mr. Joseph F. Westall): Please state

A. The exact dates I don't know that Mr. Moss was there. There were two times definitely that I do remember but the date I can't give. And then through your conferences with Mr. Caughey.

Q. So my conference has not been directly with them but through Mr. Moss?

A. And through you.

Q. Please state whether or not you were present at any time when, in December, 1936, Mr. Moss was making or causing to be made one of the devices of the Moss patent in suit, for testing by Mr. Andersen.

A. Yes; I was present.

Q. Did you see the actual device that Mr. Moss made, for testing, in November, 1936?

A. Yes.

Mr. Caughey: Pardon me, if your Honor please. I don't like to make objections unnecessarily but these are all leading questions. I think this witness can answer questions, if they are properly framed and give the dates. These are all written out, evidently. This witness, I might say, is well qualified to answer questions because I can establish by evidence that she used to be Mr. Westall's secretary.

Mr. Joseph F. Westall: Oh, no.

Mr. Caughey: At least, she is well versed in whether or not you ever visited Well No. 7-A at Huntington Beach.

A. Yes; I have been there several times.

Q. And did you see the line spooler that has been referred to as having been put in use at Well No.



(Testimony of Mrs. Phoebe Moss.)

7-A at Huntington Beach?

A. Yes; I was there when it was put up.

Q. You saw it put up?

A. Yes, sir; I did.

Q. Did you see it tested? A. Yes, sir.

Q. Did it operate successfully?

A. Yes; to the success of the men on the well. They were very pleased and bought it after one or two operations of the well.

Q. Have you made a careful examination of advertising literature of oil well devices to determine what were being advertised by Patterson-Ballagh at that time, that is, prior to or in November, 1936?

A. I have examined advertisements that they put out from 1934 up to date.

Q. From 1934 up to date? A. Yes. [243]

Q. Can you produce The Oil and Gas Journal dated December 31, 1936, page 126? A. Yes.

Q. If so, please do so. I have photostats of that and I will give one to opposing counsel.

A. December 31, 1936, page 126.

Q. At page 126? A. Page 126.

The Court: Of what book?

A. December 31, 1936.

Q. (By Mr. Joseph F. Westall): Of The Oil and Gas Journal? A. That is right.

The Court: Page what?

A. 126.

The Court: Of The Oil and Gas Journal?

(Testimony of Mrs. Phoebe Moss.)

A. Yes, sir.

Mr. Joseph F. Westall: I have a copy there for the court.

The Clerk: Do you wish me to mark this?

Mr. Joseph F. Westall: I suppose counsel will stipulate, as we have the Journal if he wants to look at it, that the photostat may be received in evidence.

Mr. Caughey: If it can be shown it is material.

Mr. Joseph F. Westall: It is very material. It is the [244] most material evidence in the case that we are putting in right now.

Mr. Caughey: That may be your idea of it, Mr. Westall. I will stipulate, as far as the defendants are concerned, that it is apparently a part of a publication, dated December 31, 1936, of The Oil and Gas Journal. I will make that stipulation.

Mr. Joseph F. Westall. And will you stipulate it is an advertisement of the Patterson-Ballagh Corporation?

Mr. Caughey: Yes.

Mr. Joseph F. Westall: And will you further stipulate that at that time, at the time of this advertisement, you were making and offering for sale the devices referred to?

Mr. Caughey: What do you mean by "the devices referred to"?

Mr. Joseph F. Westall: Wire line spoolers.

Mr. Caughey: I will stipulate that at that time

(Testimony of Mrs. Phoebe Moss.)

they were willing and were able to sell wire line spoolers; yes.

Mr. Joseph F. Westall: And they were selling them under the Reed patent at that time, were they not?

Mr. Caughey: No.

Mr. Joseph F. Westall: All right; we offer this photostat in evidence in lieu of the original——

A. That is the original out there.

Mr. Joseph F. Westall: ——as Plaintiffs' Exhibit—— [245]

Mr. Caughey: I still don't see the materiality, may your Honor please.

Mr. Joseph F. Westall: Well, the materiality of it is here they say that this device of ours was obvious and so forth and here is what they were advertising for years afterwards. They started in advertising that and they were using their old oil hanger and they kept on using it for years afterwards.

Mr. Caughey: May I read what this says? They say "The wire line spooler." There is no description of the wire line spooler.

Mr. Joseph F. Westall: Not in this particular document but they followed it, as you will see.

The Court: It may be received as Palintiffs' Exhibit No. 20.

Q. (By Mr. Joseph F. Westall): Can you produce the original of The Oil and Gas Journal of January 28, 1937, page 51?

(Testimony of Mrs. Phoebe Moss.)

A. It is in the same book with that.

Q. Oh, yes; that is right; it is.

A. At the second clip, you will find it.

The Court: Page what?

Mr. Joseph F. Westall: It is page 151.

The Court: And the date?

Mr. Joseph F. Westall: The date is January 26, 1937. [246]

Mr. Caughey: January 28.

Mr. Joseph F. Westall: January 28, 1937; that is right.

Mr. Caughey: What do you want me to stipulate?

Mr. Joseph F. Westall: I have got photostats of that.

Mr. Caughey: I will stipulate that is a Patterson-Ballagh Corporation advertisement that appeared in *The Oil and Gas Journal* on that date.

Mr. Joseph F. Westall: We offer in evidence—will you stipulate that the photostat be received in lieu of the original?

Mr. Caughey: Yes; certainly.

Mr. Joseph F. Westall: We offer in evidence the photostat just referred to as Plaintiffs' Exhibit No. 21.

The Court: It may be received.

The Clerk: Plaintiffs' Exhibit 21 in evidence.

The Court: We will take a recess at this time of ten minutes.

(Short recess.)

(Testimony of Mrs. Phoebe Moss.)

Q. (By Mr. Joseph F. Westall): Can you produce The Oil and Gas Journal of March 25, 1937, page 199? A. Yes.

Q. Is that it? A. Yes.

Mr. Joseph F. Westall: We have no copies of this and we will have to get photostats. And so we will—— [247]

The Court: I think your witness wants to say something.

A. We have one photostat of that.

Q. (By Mr. Joseph F. Westall): I have got it marked here "No photostat."

A. I believe the librarian brought a photostat of each of these. It would be the dark pictures on the other side there.

Mr. Joseph F. Westall: Apparently, we haven't that. If I had it, I would put it in evidence. Well, I will take it all back; I have two of them. Will you stipulate, Mr. Caughey, that that be put in evidence?

Mr. Caughey: I will stipulate that it is an advertisement of the Patterson-Ballagh Corporation and that it appeared in The Oil and Gas Journal of March 25, 1937.

Mr. Joseph F. Westall: At page 199?

Mr. Caughey: At the page that is marked there on it. Is it page 199, your Honor?

The Court: Yes; page 199.

Mr. Joseph F. Westall: And also that Patterson-Ballagh was selling those devices at that time?

Mr. Caughey: Yes.



(Testimony of Mrs. Phoebe Moss.)

The Court: It may be received.

The Clerk: Plaintiffs' Exhibit 22 in evidence.

Q. (By Mr. Joseph F. Westall): Will you find The Oil and Gas Journal of August 12, 1937, page 91? [248]

A. Yes.

The Court: How many of those have you, Mr. Westall? I am wondering if you can't get them all at one time and exhibit them to counsel and then offer them, instead of taking so much time.

Mr. Joseph F. Westall: Yes, but I haven't copies of all of them.

The Court: I see you have a large number of books there and I thought it might save time.

Mr. Joseph F. Westall: I don't see how I can because some of them I don't have copies of.

Q. Have you got the one for August 12, 1937?

A. Yes; and I think you will find two copies of that. I think we had copies made of everything we didn't have, so that we could produce them.

Mr. Joseph F. Westall: I don't think I have copies of that. No; there are no copies of that.

Mr. Caughey; I will stipulate that it is an advertisement of the Patterson-Ballagh Corporation and that it appeared on page 91 of The Oil and Gas Journal of August 12, 1937.

Mr. Joseph F. Westall: Yes; all right.

The Court: Do you want to supply that when you have a photostat made of it?

Mr. Caughey: I will stipulate a photostat may be offered [249] in evidence as in the other cases.

(Testimony of Mrs. Phoebe Moss.)

The Court: To be known as Exhibit 23, is that it?

Mr. Joseph F. Westall: No. 23.

The Court: May I see that? It may be received.

Q. (By Mr. Joseph F. Westall): The next is The Oil and Gas Journal of October 7, 1937, page 233.

A. Here it is. There are two in that one.

The Court: What date?

A. October 7, 1937.

Mr. Joseph F. Westall: The date is October 7, 1937, page 233. And we have copies of that, one copy of which I will give counsel. And I suppose you will stipulate that was an advertisement of the Patterson-Ballagh Corporation?

Mr. Caughey: Yes; the same stipulation.

The Court: It may be received.

Mr. Joseph F. Westall: And that Patterson-Ballagh made and sold those devices?

Mr. Caughey: They are the same ones that we previously stipulated to.

Mr. Joseph F. Westall: This is a later date.

Mr. Caughey: They did it before and still were.

Mr. Joseph F. Westall: We offer that in evidence as the next number.

The Court: Does that stipulation run-through all of these advertisements, that they were made and sold by the corporation, [250] or just these two or three you have stipulated to?

Mr. Joseph F. Westall: It is important to show,

(Testimony of Mrs. Phoebe Moss.)

which is a very important part of our case, that they continued it through 1937 and in 1938 they were still continuing and in 1940. It shows what they were using and what they were doing. On April 25, 1940, they were using the same thing, and June 3, 1944.

Mr. Caughey: I am not accepting those statements.

Mr. Joseph F. Westall: If you would accept them, we could stipulate to it.

Mr. Caughey: I don't know what you are talking about.

The Clerk: The last exhibit is No. 24 in evidence.

Q. (By Mr. Joseph F. Westall): The next is The Oil and Gas Journal of October 21, 1937, page 71.

A. It is in that same book and has a clip on the page.

Q. It is October 21, 1937, page 71?

A. Yes.

Mr. Joseph F. Westall: We offer in evidence The Oil and Gas Journal of October 21, 1937, page 71, as Plaintiffs' Exhibit 25.

Mr. Caughey: I will stipulate that is an advertisement of the Patterson-Ballagh Corporation as of that date, page 71 of The Oil and Gas Journal of October 21, 1937.

A. We have the original and the photostats are enclosed in the original. [251]

Q. (By Mr. Joseph F. Westall): The original

(Testimony of Mrs. Phoebe Moss.)

of this?       A. Yes; page 71.

Q. Yes; we have. We have the original book.

Mr. Joseph F. Westall: We will offer that original book in evidence and we also have photostats and I will give you a photostat.

Mr. Caughey: There is no need of putting in the original book as far as I am concerned.

Mr. Joseph F. Westall: All right. So, therefore, under counsel's stipulation, we will——

Mr. Caughey: I never included in the stipulation that that was being manufactured and sold at that time. The reason is there is a question in my mind about some of these things here and I can clear it up by Mr. Ballagh when we get him on the witness stand. But I don't want to enter into that stipulation at the present time.

The Court: This may be received.

The Clerk: Plaintiffs' Exhibit 25, the one dated October 21, 1937.

Q. (By Mr. Joseph F. Westall): I want to ask you, referring to Exhibit No. 25 in evidence, to please state whether or not that illustration correctly represents the Patterson-Ballagh line spooler. Is that right-side up, in other words?

A. If it were right-side up, it would represent it. [252]

Q. But it is upside down in the advertisement?

A. The picture is upside down, and the way I have ever seen them—I have never seen them in a derrick like that.

(Testimony of Mrs. Phoebe Moss.)

Q. There is no hanging line in there, is there?

A. There is a hanging line attached to the middle eye in that picture.

The Court: What exhibit is that?

Mr. Joseph F. Westall: Exhibit 25.

Q. Do you find The Oil and Gas Journal of December 3, 1937, page 186?

A. That is December 30, 1937, yes, page 186.

Q. That is December 3, 1937.

A. No; it is December 30, 1937.

Q. Oh, yes; December 30, 1937, page 186. We have three photostats of that.

A. Your Honor, could I separate those photostats?

The Court: If you want to assist counsel, you may step down and help him out. While you are about it, if you can get together all that you are going to offer along the same line, we can save some time here.

Mr. Joseph F. Westall: We have three copies of that, one of which I will give to counsel. We offer in evidence the photostat and I suppose counsel will stipulate that that is an advertisement of the Patterson-Ballagh Corporation.

Mr. Caughey: I think this is the same one that is already [253] in evidence. It is part of the advertisements previously offered. I have no objection to putting it in again as a separate exhibit, if you wish.

The Court: It may be received.



(Testimony of Mrs. Phoebe Moss.)

The Clerk: Plaintiffs' Exhibit 26 in evidence.

Q. (By Mr. Joseph F. Westall): Have you got The Oil Weekly of March 15, 1937?

A. Yes; page 69.

Q. We have no copies of that, have we?

A. No.

Mr. Joseph F. Westall: We offer in evidence the copy of The Oil Weekly of March 15, 1937. We have no copies.

Mr. Caughey: I would like to see it first, Mr. Westall.

Mr. Joseph F. Westall: It is The Oil Weekly of March 15, 1937, page 69.

Mr. Caughey: No objection.

Mr. Joseph F. Westall: And you stipulate that that was manufactured and sold—or that is the ad of Patterson-Ballagh?

Mr. Caughey: That is correct.

Mr. Joseph F. Westall: And that about that time they were selling the device illustrated?

Mr. Caughey: That they were manufacturing and selling them. [254]

Mr. Joseph F. Westall: Then, we offer that in evidence and, not having any copies, we will have to have photostats made of it. You will agree that those photostat copies may be substituted, will you, Mr. Caughey?

Mr. Caughey: Yes.

The Clerk: That will be Plaintiffs' Exhibit 27.

The Court: Will you let me see it?

(Testimony of Mrs. Phoebe Moss.)

Mr. Joseph F. Westall: It shows the hanging from the middle eye.

A. Does that one show the hanging?

Q. Yes. The next one is *The Oil and Gas Journal* of December 29, 1938, page 195.

A. Yes.

The Court: What is that book?

A. *The Oil and Gas Journal*.

Mr. Joseph F. Westall: Of December 29, 1938, page 195.

Q. Let's see the original. Are you sure that is the right one?      A. Here is the original.

Q. Oh, yes.

The Court: That will be exhibit what?

Mr. Joseph F. Westall: Will you stipulate that it was an advertisement of the Patterson-Ballagh Corporation and that it was manufactured and sold the date it bears?

Mr. Caughey: Yes; I will so stipulate, that [255] the Patterson-Ballagh Corporation were either manufacturing and selling them or offering them for sale at that time.

Mr. Joseph F. Westall: December 29, 1938?

Mr. Caughey: That is right.

The Court: It may be received.

The Clerk: Plaintiffs' Exhibit 28 in evidence.

Q. (By Mr. Joseph F. Westall): The next is *The Oil and Gas Journal* of November 18, 1938, page 40, of which we have two photostats.

A. Here are the photostats.

Q. Have you got the original book?

(Testimony of Mrs. Phoebe Moss.)

A. It is here; yes.

Mr. Joseph F. Westall: I will show the original book to counsel.

Mr. Caughey: May your Honor please, I don't object to his putting those exhibits in but, candidly, I don't see the materiality of it. The patent wasn't issued until 1940.

Mr. Joseph F. Westall: Yes; but you show you were hanging from the middle.

Mr. Caughey: These are not hung from the middle. What is the materiality of that?

Mr. Joseph F. Westall: We want to show they were hanging from the top there and when they changed.

Mr. Caughey: I will stipulate when they changed and you don't have to put all of these in. [256]

Mr. Joseph F. Westall: There are not so many more and I think I would like to get them in.

The Court: Put in your evidence. How many more do you have of those?

Mr. Joseph F. Westall: This one, I think, is already in evidence as Exhibit 10J of the deposition. So we won't need to put that in.

The Court: What date is that?

Mr. Joseph F. Westall: It is November 18, 1938, page 40.

The Court: That is already in evidence, is it?

Mr. Joseph F. Westall: That is already in evidence as Exhibit 10J.

Q. Now, the next one is The Oil and Gas Journal of December 1, 1938, page 74.

(Testimony of Mrs. Phoebe Moss.)

A. It is in evidence, too.

Mr. Joseph F. Westall: That also is in evidence.

The Court: Are those photostat copies in evidence?

Mr. Joseph F. Westall: Yes; those photostat copies are in evidence. One reason we put these in here was because counsel objected to the pen date on some of them, but he has since waived that objection.

Mr. Caughey: A long time ago.

The Court: What is the former exhibit?

Mr. Joseph F. Westall: No. 28, which is already in. [257]

The Court: Do you withdraw the one dated December 1, 1938?

Mr. Joseph F. Westall: No. That is already in evidence as Exhibit 10-J.

The Clerk: That is Exhibit 10-L, your Honor.

Mr. Joseph F. Westall: The next is The Oil and Gas Journal of April 25, 1940, page 20. We have three photostats of that and that is not in evidence, is it? Well, yes; that is in evidence as Exhibit 10-H.

The next is The Oil and Gas Journal of June 3, 1944, page 100, of which we have two photostats. Well, that is Exhibit 10-M. That is in evidence, too. The next is The Oil and Gas Journal of March 31, 1945, page 8. I don't think we have got that one in evidence.

A. No; I don't seem to find that. Well, here it is in this book; yes. This is it.

(Testimony of Mrs. Phoebe Moss.)

Mr. Caughey: Yes; I will stipulate to that.

Q. (By Mr. Joseph F. Westall): Have we photostats of this? A. Yes.

Mr. Joseph F. Westall: I had better offer those instead, then.

A. You must have them down there.

Mr. Caughey: I will stipulate you may put in the photostats later. [258]

Q. (By Mr. Joseph F. Westall): March 31, 1945. Have you got that one?

A. That is the one we just had, March 31, 1945.

The Court: May I see that? That may be supplied later on by your photostat. That will be exhibit what?

The Clerk: Exhibit 29.

Mr. Joseph F. Westall: Yes. It is The Oil and Gas Journal of March 31, 1945.

Q. The next is The Oil Weekly of February 19, 1945, page 49.

A. The Oil Weekly of February 19, 1945?

Q. Yes.

A. Yes; it is the same as the previous ad.

The Court: The same as Exhibit 29?

A. It is.

Mr. Caughey: I will so stipulate and there is no need of putting it in evidence.

Mr. Joseph F. Westall: Yes; that is the same as Exhibit 29 and we don't need to put it in for that reason, except will you stipulate it is the same ad as found in The Oil Weekly of February 19, 1945, at page 49?



(Testimony of Mrs. Phoebe Moss.)

Mr. Caughey: That is correct.

Mr. Joseph F. Westall: And that it was manufactured by the Patterson-Ballagh Corporation?

Mr. Caughey: That is correct. [259]

Mr. Joseph F. Westall: And that they offered for sale the devices shown in that advertisement?

Mr. Caughey: They offered for sale the particular device, the spooler, which is shown in that ad, which I presume is an issue in this case, but there are a lot of other structures in there that have nothing to do with it.

Q. (By Mr. Joseph F. Westall): The only remaining one is The Oil Weekly of June 24, 1946, page 66. A. It is here.

Q. Have you got it? A. Yes.

Q. May I see it? A. Yes.

Mr. Caughey: I will stipulate that that is an advertisement of Patterson-Ballagh, which was a division of the Byron-Jackson Company at that time, and that the device which is referred to as a wire line guide and shown in the cut at the right, at the lower side, was being offered for sale by that division.

Mr. Joseph F. Westall: At the time of the date mentioned, June 24, 1946?

Mr. Caughey: At the time of the date; correct.

The Court: That will be Plaintiffs' Exhibit No. 30.

Mr. Joseph F. Westall: Have we got photostats yet?

The Clerk: Not yet. [260]

(Testimony of Mrs. Phoebe Moss.)

Mr. Joseph F. Westall: I don't think we have photostats. I have here "no photostats ordered." Will you stipulate we may supply the photostats in place of the original?

Mr. Caughey: Yes.

Mr. Joseph F. Westall: You may cross-examine.

The Court: Was that last exhibit the same as the other ad?

Mr. Joseph F. Westall: No. That is another one, although the pictures are a good deal the same.

The Court: I didn't see that.

Mr. Joseph F. Westall: What is the number of that in evidence?

The Clerk: That is No. 30, of which you are going to furnish a copy later.

Mr. Joseph F. Westall: February 19, 1945, page 49, should be Exhibit 30, isn't that right?

The Court: This is June 24, 1946.

Mr. Joseph F. Westall: June 24, 1946, ought to be Exhibit 31.

A. No; it is page 66.

The Clerk: Page 66 is the last one you offered, isn't it?

The Court: The last one I have is Exhibit 30, June 24, 1946, page 66. Is there anything since then?

Mr. Joseph F. Westall: That should be 31. [261]

The Clerk: What do you have as 30?

Mr. Joseph F. Westall: If you have marked it 30, we will mark it 30.

The Court: Which is 31?

(Testimony of Mrs. Phoebe Moss.)

Mr. Joseph F. Westall: Here will be one. We offer in evidence The Oil Weekly of February 19, 1945.

The Court: February 19th is Exhibit 29.

Mr. Joseph F. Westall: We offer in evidence The Oil Weekly of February 19th, page 49.

The Court: They stipulated that is the same as Exhibit 29. So you didn't need to offer that.

Mr. Joseph F. Westall: I guess we did that. And then we have 30 and that is the last one.

### Cross-Examination

By Mr. Caughey:

Q. You testified, did you not, Mrs. Moss, that you saw the line spooler which was in position at the Holly Oil Company well in Huntington Beach?

A. I saw it put up into the derrick.

Q. On what date was that, to the best of your recollection?

A. April 5, 1937.

Q. Are you relying upon your recollection for that?

A. No.

Q. Have you some records to support it? [262]

A. It was put up just before the well was spudded in and the well was spudded in April 7th, and they were rigging up and getting ready to drill the well and they put the spooler up the 5th day of April.

Q. You say that well was spudded in. What well was that?

A. Holly 7-A.

Q. It was spudded in on what date?

(Testimony of Mrs. Phoebe Moss.)

A. April 7th. That is the date on their drilling log.

Q. You weren't there when it was spudded in?

A. I was not present when it was spudded in.

Q. You say you were there before it was spudded in and when the spooler was up in the rig?

A. Yes.

Q. And was the wire rope threaded through the spooler at that time? A. Yes.

Q. How far up in the rig was the spooler?

A. It was about 20 feet above the drum.

Q. About 20 feet?

A. Or the second girt over the drum.

Q. The second girt over the drum would be 17 feet, wouldn't it?

A. Well, I don't know. I never measured the girts in the derrick. [263]

Q. Then, would you say that it was the second girt? A. Yes.

The Court: May I have that again, when you saw that rigged up?

A. It was spudded in April 7th.

The Court: That is, the well was?

A. Yes.

The Court: But when did you say this——

A. April 5th.

The Court: April 5th?

A. Yes.

The Court: What year?

A. 1937.

The Court: The well was spudded in when?

(Testimony of Mrs. Phoebe Moss.)

A. April 7, 1937.

Q. (By Mr. Caughey): It is your recollection that the spooler was hung—or I mean the supporting wires or lines on either side of the spooler were attached to the second girt up?

A. The supporting lines on the side went over the pulleys that were attached to the side.

Q. To the second girt? A. Yes.

Q. And do you recall how far up the line it was attached to the upper part of the spooler and which has been referred [264] to as the hanging line, how far up the rig that was attached?

A. How many girts up I don't know.

Q. You don't know? A. No.

Q. What was the line through which the spooler was threaded, or which was threaded through the spooler, rather—what was it attached to?

A. The drilling lines of a well are attached, evidently, to the drilling tools. I am not so well versed as to be able to tell you how they are drilled. I know what the drilling line does but I couldn't tell you the details of it because I don't know.

Q. In other words, you don't recall when you saw it on that date what it was attached to, is that right?

A. I do recall. I know what the drilling line on the well is.

Q. I am not asking you that. I am asking you if you recall what it was attached to when you saw it, attached to on April 5th.



(Testimony of Mrs. Phoebe Moss.)

A. They were rigging up and, therefore, the drilling line was not yet in use.

Q. Was it slack? A. It wasn't in use.

Q. It would evidently, if it had weight on it, be [265] taut? A. I don't know.

Q. You don't know whether it was taut or slack?

A. I know, after they threaded it in through the spooler and went to use it, it was, naturally, taut.

Q. Did you see it after it was used?

A. Yes; I did.

Q. On what date?

A. I don't know the exact date because I was down there several times while the well was being drilled.

Q. Do you recall how long that well was being drilled?

A. Offhand, no. I have read on the log. I have the log here.

Q. You were there several times, were you?

A. Yes; I was.

Q. And that was the first spooler that your husband made, is that correct?

A. That is right.

Q. And that was the one that was made, as your husband testified in his deposition, in the latter part of November, 1936?

A. That is right.

Q. Did you see this—you have been in the court room all during the time that the testimony has been taken, haven't you? [266]

A. Yes; I have.

(Testimony of Mrs. Phoebe Moss.)

Q. And you have heard all of the witnesses that were called on behalf of the plaintiffs?

A. Yes.

Q. Did you see the spooler which was in place on the Republic well? A. Yes; I did.

Q. You saw that? A. Yes.

Q. That was later on, in 1937, was it?

A. Yes; it was in July and August. The exact dates I don't know, what date it was put up, but I believe it was July 21st.

Q. And did the spooler that was hung in the well at Huntington Beach have, in addition to the hanging line, a line which was referred to as a safety line? A. It had two safety lines.

Q. Where were they hung?

A. On each arm, where that eye is represented on the arms, out to the side. There was a safety line attached to each one at the top, right in through those little eyes. There were two slack lines, one on either side.

Q. You say there were two slack lines that were attached to the eyes on each side?

A. Of the spooler, near the top. [267]

Q. And only one to one side of the derrick—

A. No.

Q. How were they fastened?

A. Through the eye and to a girt, loosely tied.

Q. One on each side?

A. One on each side, where those eyes are.

Q. And were those lines fastened separately on the girt, those safety lines?

(Testimony of Mrs. Phoebe Moss.)

A. They were fastened separately to the closest girt to them.

Q. They were relatively short? A. Yes.

Q. And slack? A. They were slack.

Q. And was that the way that the safety lines were fastened on the Republic well also?

A. I don't believe the safety lines were put on the Republic well.

Q. Just the hanging line?

A. Just the hanging line; yes.

Q. Did they have the eyes, as you have described, on the spooler that was put on the hanging line, to which it could be attached if they wished?

A. Yes.

Q. But you don't recall any being on [268] there?

A. No; I don't.

Q. Did you see any Patterson-Ballagh spoolers prior to April 5, 1947? A. No; I didn't.

Q. Do you recall the testimony of your husband that he saw one shortly before Christmas, 1936?

A. That is right.

Q. But you were not present at that time?

A. I wasn't there with him at the time.

Q. And you weren't present, were you, Mrs. Moss, when the disclosure was made to Mr. Andersen, as testified to, in May, 1936?

A. No; I wasn't.

Q. You weren't there at that time?

A. No.

Mr. Caughey: I believe that is all.

Mr. Joseph F. Westall: That is all, Mrs. Moss.

At this time I would like to request the court to take judicial notice, and make the same a matter of record, of the following circumstances. I refer, first, to page 42 of the World Almanac of 1946, stating that the United States declared war on Japan on December 5, 1941, and declared war on Germany and Italy on December 11, 1941.

The Court: What is that, again?

Mr. Joseph F. Westall: It says it declared war on Japan [269] on December 5, 1941, and declared war on Germany and Italy on December 11, 1941, and declared war on Bulgaria, Hungary and Rumania on June 5, 1942.

Also, on page 42 of said World Almanac, that Germany surrendered unconditionally to the Western Allies and the Soviet Union on May 7, 1945.

And then I shall ask the court to take judicial notice that, although the shooting stopped, we have not yet had peace and the war thus continues, although we don't shoot any more. The infringement commenced after the grant of the Moss patent in suit, February 20, 1940, and has continued.

Mr. Caughey: Are you asking the court to take judicial notice of this?

Mr. Joseph F. Westall: No. I am making that statement to show the action of the defendants and it has continued and will be shown to the present date.

The Court: When did you say the infringement took place?

Mr. Joseph F. Westall: It began after the grant of the patent on February 20, 1940, and has continued, as has been or will be apparent, and as we believe is apparent from the record, to the present date. That evidence has to do with the question of laches which will have to be presented. The court has read this letter dated March 24, 1940, in which Mr. Ballagh, secretary of Patterson-Ballagh, says, "Due to the war situation and its effect upon the rubber business and the [270] oil business, we have decided against making any commitments of this kind at the present time. When the war situation clears up, we might be in a better position to talk with you about this."

At the beginning of the letter he says, "I have talked with my associate relative to the purchase of your patent." That was in 1942. I was reading from Exhibit 19 as merely showing that Mr. Moss had suggested a settlement and the reason he didn't sue sooner is because he expected a settlement.

Mr. Caughey: Would that be a ground for not suing?

Mr. Joseph F. Westall: Yes; it would if you had bought the patent.

Mr. Caughey: I hope you will never get caught in that way.

Mr. Joseph F. Westall: And with that judicial notice, we close our case.

Mr. Caughey: Shall I proceed or shall we take a recess until morning?

The Court: Have you any depositions to read?

Mr. Caughey: No, your Honor.



The Court: We will get a fresh start in the morning.

Mr. Joseph F. Westall: Can you give me some idea of how long it will take you to put in your case?

Mr. Caughey: I think about a day but, of course, I can't [271] tell because I don't know how long your cross-examination will be.

Mr. Joseph F. Westall: I don't think it will be long.

Mr. Caughey: We may be through tomorrow. I am not making any promises but that is a possibility.

The Court: We will take a recess until tomorrow morning at 10:00 o'clock.

(Thereupon, a recess was taken until 10:00 o'clock a.m., Thursday, February 19, 1948.) [272]

\* \* \*

J. E. REED

called as a witness on behalf of the defendants,  
being first duly sworn, testified as follows:

The Clerk: Will you state your name, please?

A. J. E. Reed.

Direct Examination

By Mr. Caughey:

Q. Your first name is John, is it not, Mr. Reed?

A. That is right.

Q. And what is your present address?

A. 121 East El Camino, Santa Maria.

Q. California? A. California.

Q. And what is your present occupation?

A. Drilling superintendent of the Union Oil.

Q. How long have you been drilling superintendent for [275] the Union Oil Company?

A. Since 1934.

Q. And how long have you been employed by the Union Oil Company? A. 34 years.

Q. That was almost the inception of the Union Oil Company, wasn't it, Mr. Reed?

A. It was about 10 years old, I imagine, when I started.

Q. Would you state briefly, from the time that you began working for the Union Oil Company, what experience you have had in the oil fields?

A. Well, the first three years I was a rig builder and I went to work in 1904, and then I spent until 1907 as a rig builder, and from 1907 until 1910 I spent as a tool dresser, and then from 1910 on to

(Testimony of J. E. Reed.)

1935 I spent as a driller, and from 1935 I have been drilling superintendent.

Q. Have you been drilling superintendent in any particular place or general drilling superintendent?

A. In the Bakersfield area I didn't have very—I only had about five wells running until I was promoted to the whole district and that was in 1938, and then I was drilling superintendent for the whole San Joaquin Valley, and then, when the Union Oil Company did away with their drilling department and went over to contracting, I was the [276] drilling superintendent for the Santa Maria district and am now.

Q. When did they do away with drilling their own wells and go to contracting? How long ago?

A. Just a year ago the 1st of this February.

Q. Did you work for any other concern in the oil fields excepting the Union Oil Company, Mr. Reed?

A. Yes, sir; a few times being loaned out by the Union Oil Company.

Q. But your long experience in the oil fields has been, primarily, with the Union Oil Company, has it? A. With the Union Oil Company.

Q. Are you familiar with oil well rigs as they are used in that field? A. Yes, sir.

Q. Do you know what the height of the oil well rigs was in 1936 and 1937, for example?

A. Well, there was 122-and 136-foot derricks.

(Testimony of J. E. Reed.)

Q. In that 122-foot derrick, what was the floor space?      A. 24 feet.

Q. Was that a square?      A. Yes, sir.

Q. And what was the width across the top of the derrick?      A. Five foot six inside.

Q. And that 24-foot was an inside measurement also? [277]      A. It was inside also.

Q. Now, on the 136-foot derrick, what was the measurement at the base?      A. 26 feet.

Q. 26 feet on a side?      A. Yes.

Q. And at the top?      A. Five foot six.

Q. The same as in 122?      A. That is right.

Q. And what was the reason for that, Mr. Reed?

A. Well, the crown block was the same size that we used those days. We used the same sized crown block and the inside space at the top of the derrick was the same.

Q. In general, what is a crown block?

A. That is a block that sets on top of the derrick, that the lines run through or spool through.

Q. How many lines are there?

A. Well, there were six shivs on top at that time or pulleys and six shivs in the traveling block.

Q. And the lines ran through those shivs, is that right?

A. They run through there, right through those shivs. We are talking about a steel derrick, aren't we?

Q. Yes. Those steel derricks were used in 1936 and 1935, [278] is that correct?

A. Yes; that is correct.

(Testimony of J. E. Reed.)

Q. The old wooden derricks had gone out by that time?

A. Well, there were a few of them being built.

Q. I show you a composite catalog, oil field catalog, of 1936, and page 134, which is an advertisement of the Baash-Ross catalog. Do you recognize the crown block, that you have referred to, in those pages?

A. Yes; I do.

Q. And was that the crown block that you were using in 1936?

A. Yes, sir; the one we used, with 48-inch shivs.

Q. 48-inch shivs? A. That is right.

Q. And that crown block set up on the top of the derrick?

A. That is right.

Q. Facing down?

A. Yes. This was up and this was down.

Q. Page 134 of the composite catalog—or, prior to that, I will ask will you stipulate, Mr. Westall, that pages 134 and 135 of the composite catalog, which is a well-known publication of the oil fields, may be introduced to show the crown blocks and the measurements of the same?

Mr. Joseph F. Westall: I don't see any materiality but [279] I will stipulate to it and also stipulate that photostatic copies may be furnished and offered in evidence.

Mr. Caughey: Thank you. It is the 1936 edition, published by The Oil Weekly, and this is Volume No. 7.

Q. This is a well-known publication in the oil industry, is it not, Mr. Reed?

A. Yes, sir.



(Testimony of J. E. Reed.)

Mr. Joseph F. Westall: Has the clerk got the pages?

The Clerk: Pages 134 and 135.

The Court: Are both of those pages marked?

The Clerk: Counsel wishes to substitute photostats.

The Court: Photostats of what pages?

Mr. Caughey: 134 and 135. One page shows the structure and the other page gives the measurements and so on.

The Court: It may be received as Defendants' Exhibit A, to be later substituted by photostatic copies of both pages. Is that right?

Mr. Caughey: Yes, sir.

The Court: Pages 134 and 135.

Q. (By Mr. Caughey): You stated that the width of the crown block you used was 48 inches?

A. Yes, sir, that is, the pulleys.

Q. Where would the line which ran from the crown block to the drum on the floor come off at the top of the rig?

A. Coming down to the drum? [280]

Q. Yes, sir.

A. It would come off on the drum side.

Q. And how far in approximately would that be from the side of the rig that it came down on?

A. Well, in the first place they put those crown blocks up on top of the derrick and they put the traveling blocks down and thread the lines and then they align or they put a weight on there, what we call a drill collar. That is our operation. And then

(Testimony of J. E. Reed.)

we line that crown block up so that that drill collar hangs right in the center of where we are going to drill the hole. And we may have to get up to the top of that crown block and shove it around a little one way or the other in order to make that drill collar hang in the center. So we do move those. We have about six to eight—maybe more; I wouldn't say for sure—we have at least six or eight inches which we can move it to make it line up with the hole and that would change the pulley at the crown some, but I would say it does not run over six or eight inches; that the line is six or eight inches from the inside of the derrick, at the top.

Q. In other words, the line coming off of the crown block is six or eight inches from the side of the derrick, at the top?

A. That is right, that is, if we were using a Baash-Ross crown. [281]

Q. And then it runs down to a drum on the floor?

A. That is right.

Q. Where is that drum on the floor of the derrick situated?

A. When it is made, it is made to line with the traveling line, which is the outside shiv at the top of the crown. That is put in the rig to line with the center of a drum. That is our installation.

Q. And the inside of that drum, that is, the part that faces to the inside of the derrick—how far in is that from the edge of the derrick?

A. Do you mean the inside of the drum, that is, facing the inside of the derrick?

(Testimony of J. E. Reed.)

Q. Yes, sir.

A. Well, now, that is going to depend on the size of your drum, too.

Q. That is correct.

A. But the drum that was used in 1935 and 1936 was an 18-inch drum, that is, the ones we had.

Q. And that would throw it—in other words, the center of that drum would be in some?

A. From the header boards we put in, because in the slope of the derrick it would throw it inside, a little over half inside, of that drum. I would say 12 inches inside.

Q. And the line that came down from the top went [282] around clockwise, didn't it?

A. That is right.

Q. So it came around to the point that was closest in to the drum?      A. Yes.

The Court: Does that wind from the inside or from the outside?

Mr. Caughey: It runs from the inside clockwise.

The Court: That is to say, the side closest to the center of the derrick?

Mr. Caughey: Closest to the center of the derrick.

Q. Mr. Reed, you are familiar with line spoolers, are you not?      A. Yes, sir.

Q. Would you say generally what kind of line spoolers were used in the year 1935, generally speaking?

A. A piece of chain. It had a counterweight the same as that that you see there and a rope ran over.

(Testimony of J. E. Reed.)

We used in our operation about six links of chain. And it had weights tied to it that hung on this chain or that held this chain tight, and the line was threaded through the center link of this chain. And then we had another line or two other lines tied from the top of the chain to a girt, up to the derrick. Some of those were tied with two lines and some of them were tied with a line with a loop that went up five or six feet [283] and then a single line tied into that with the derrick. It was all installed differently.

Q. As I understand your testimony, then, this chain spooler through which the wire line was threaded had, in some instances, a line which was tied to one of the chains?

A. Well, we carried two lines on it.

Q. You had an upper line, did you?

A. We had a line or sometimes they were tied with a loop.

Q. Let's eliminate the loop for a moment. Just describe the one where you didn't have the loop.

A. We had two ropes tied to it.

Q. Was one of those ropes tied at the top?

A. They were both tied at the top.

Q. Describe how they were tied?

A. If we were threading it through the center link, then the link back from that—we tied a rope through that and up to a girt in the rig. Then on the other side of the line we tied another one in and up to the top.

Q. Then, as I understand your testimony, assum-

(Testimony of J. E. Reed.)

ing that we have a chain now out here like my pencil, is, you tied a line to the link, from one link here, and went up and tied it to a girt?

A. That is right.

Q. Then, from the other chain on the other side you [284] tied another line up to a girt, is that correct?

A. Yes; but we never only got one link away from where the line went through the link.

Q. In other words, you tied it right close to where it went through to the wire line guide?

A. Yes, sir.

Q. You also said something about tying it with a loop.

A. We used that same system of tying it in the same links we just talked about and used a loop and then tied it up in the loop with a single line.

Q. Was that looped to the chain and went over, is that the way it went?

A. Yes; it went from one side to the other side.

Q. And how far up was the loop?

A. I would say six or eight feet.

Q. And then you had a line to the top of the loop and ran it up and tied it to a girt?

A. Yes, sir.

Q. How far up on the derrick did you do it?

A. I would say about three girts.

Q. Was that line taut, that line at the top that you have described? Was it a tight line?

A. It was pulled up even so that the chain



(Testimony of J. E. Reed.)

couldn't come down any lower than straight across.

Q. In other words, the weight of the chain was on the [285] line? A. That is right.

Q. What was the purpose or function of that chain spooler?

Mr. Joseph F. Westall: If the Court please we, should object to this line of examination on the ground that they have not set up or pleaded in their answer any alleged anticipation by this old chain device at all. Under the elementary law, it is necessary for them to plead every defense of that character more than 30 days before the trial. That is the positive law. They haven't pleaded it in the answer and haven't suggested it, and now they are offering it in evidence with an apparent attempt at anticipation. We say that it is not admissible and we move that all of the evidence on that score be stricken out.

Mr. Caughey: I am not putting it in to anticipate the claim, may your Honor please. I am putting it in to show the state of the art and to show it was done in the art. I am not putting it in to anticipate claim 2 because, obviously, this chain didn't have lateral side devices and bridle devices such as described in that claim. I am putting it in to show the state of the art, and these chains were referred to in the testimony of the plaintiffs. They brought in these chain spoolers that they used in the old art.

Mr. Joseph F. Westall: Yes, and it is in evidence that [286] they were not tied up.

(Testimony of J. E. Reed.)

Mr. Caughey: There was some evidence but that doesn't mean that isn't the way they were necessarily used.

The Court: I would like to know the background of all of this. I don't know that it is a defense but it is historical and I imagine——

Mr. Joseph F. Westall: Yes; I am sure it will not be found to be an anticipation of the claims. The evident attempt, notwithstanding counsel's assertion, is to prove that the very essence of the patent to Mr. Moss, hanging from the top, was old. That is the purpose of it and to that extent they are attempting to state an anticipation without having pleaded it as required by the law. However, we can argue that when it comes to argument.

The Court: At all events, if this evidence later on should not be considered in connection with this matter, you may renew your motion.

Mr. Joseph F. Westall: Yes. In other words, the ruling of the court is tentative.

Mr. Caughey: I call your Honor's attention to claims 2 and 7. They are not directed solely to hanging at the top. The claim includes all of these elements and the hanging at the top is just one element of the claim. I am merely proving that hanging at the top is just one element. What was the question? [287]

(Question read by the reporter.)

A. We tried to keep the whip out of the drilling line as it was rolling onto the drum, when we

(Testimony of J. E. Reed.)

were running up the derrick, with the empty blocks, without any load on it, running up after a drill-stand, to pick one up.

Q. When did you have the problem of whipping of the line in drilling an oil well?

A. When we were running up with the empty blocks without a load, when we had the drill pipe standing in the rig and we had to run up with the empty blocks to pick up a stand, to screw it on to let it down the well.

Q. And did you have the whipping problem at any other time?           A. No.

Q. In other words, when there was a load on the wire line guide, you didn't have any problem of whipping, is that correct?

A. No; we didn't have any problem. The line spooler was of no value then.

Q. When the line whipped, what was the bad effect of the whipping of the line?

A. It spooled across the drum this way and, when it was running up, if it happened to throw a whip in it and hit the drum about the same time, then it would thread a gap in there and the line wouldn't spool up tight against itself, so [288] that the line coming back has to come back and spool about four times, and that jumps away and leaves a gap. Then, when the line comes back, you have got that same gap to spool, right over the top of it.

Q. Was that the whipping you referred to?

A. It was a whipping that I referred to.

(Testimony of J. E. Reed.)

Q. Was there any other whipping on the line up or down?

A. It might whip this way but that didn't bother on spooling the line.

Q. So the only whipping that bothered on the spooling of the line was the side whipping?

A. That is right.

Q. Did this chain spooler that you used function to take some of the whip out of the line?

A. It did some but it didn't take it all out. It would throw a gap once in a while and sparks would fly off of that thing and get in the boys' eyes.

Q. Do you mean sparks from the chain there hitting the wire rope?      A. Yes, sir.

Q. Did that occur very frequently?

A. Most all the time. All the time we had trouble with men getting flakes of steel in their eyes.

Q. Did you ever have any of your men get flake steel [289] in their eyes by that means?

A. A lot of them.

Q. Can you name any of them?

A. Mr. Prehoda, I know, was one of them.

Q. You say he got steel in his eyes from the chain hitting the wire rope?      A. Yes, sir.

Q. Did you recognize that as a problem, to eliminate, if possible, the sparks and to do something about it?      A. Yes, sir.

Q. Did you do anything about it?

A. Yes; we did.

Q. What did you do?

(Testimony of J. E. Reed.)

A. We put up a wooden line spooler.

Q. Where was that put up?

A. It was put up on Belridge 19.

Q. That is a Union Oil Company well?

A. Yes, sir.

Q. Will you just describe that wooden spooler?

A. Well, we took a piece of 6x6 hardwood and we gradually whittled it round at the drilling well. We bored an inch and one-eighth hole through it. We put a clamp at the top and a clamp at the bottom and the thing was 18 inches long, and then we put a bridle on the order of that.

Q. When you say "the order of that," are you referring [290] to the bridle on the spooler that is in the model?

A. It was made out of rope, that is, what I am talking about. And we ran practically the same weights that we ran on the old chain spooler, and then we put these clamps at the top. We had two bolts through them and the clamps at the bottom had a bolt on each side, and we took a rope and made a loop and ran through the top of this spooler, the same type of loop that we had in the chain line spooler, and we tied that at the top of the rig. Then we put one at the bottom. We didn't put that on at first. After we ran this thing, I would say maybe once in the hole—it went up and down the line, from the tension of the line—so we put another one at the bottom the same as the top, only the one on the bottom was a loose line because we had to have it loose enough so it could travel back and forth, so



(Testimony of J. E. Reed.)

that it went the width of the drum, or whatever it took to run it back and forth over to this side of the drum. We had to have the one loose on the bottom when that was going on but, when we were running in the hole, the bottom one would be tight and the top one would be loose due to the thing climbing up the line.

Q. And how about when you were coming out of the hole?

A. When we were coming out of the hole, the top one would be tight.

Q. Was the weight of the spooler suspended on the top line? [291]

A. The top line was just tight enough to hold the spooler level across.

Q. You say that spooler wasn't very heavy?

A. No; it wasn't very heavy. It was made out of hardwood and was only 18 inches long.

Q. How far up was the loop that you said you threw around?

A. I would say that loop was about six foot long.

Q. And then a line ran from the top of the loop up to the third girt?

A. Yes.

Q. The third girt up?

A. The third girt from the center of the spooler.

Q. How far would that be?

A. It would be 21 feet.

Q. Seven feet to a girt?

A. Seven feet between the girts.

Q. You say you used that in Belridge No. 19?

A. Yes, sir.

(Testimony of J. E. Reed.)

Q. When was that well drilled?

A. It was drilled in 1935. I don't remember when it was spudded in but it was in the summer or the fall of 1935 that we put that on.

Q. And you say you put that 18-inch long spooler in in 1935? [292]      A. In 1935.

Q. Then, what was the next well that you drilled, if you remember, after that?

A. Belridge 20 we went on after that well.

Q. Where was Belridge 20 drilled?

A. It was drilled in the Belridge field, which is the North Belridge in San Joaquin Valley.

Q. Was that a Union Oil Company well?

A. Yes, sir.

Q. Was Mr. Prehoda with you when you were drilling that Belridge 19?

A. He was. He was the driller on the job.

Q. Do you recall when you spudded in Belridge No. 20?      A. It was in March of 1936.

Q. You were working for the Union Oil Company at that time, of course?      A. Yes, sir.

Q. Did the Union Oil Company have any practice of asking or compelling their employees to make out records of inventions that they may have made?

A. Yes; we had at that time to send in to the Union Oil Company, if you were a supervisor, your inventions and then they had to pass on it to see if they would want it, and then they would send it back to you and, if they didn't want it——

Q. If they didn't want it, you could keep [293] it?      A. That is right.

(Testimony of J. E. Reed.)

Q. Was this wooden one that you testified to the only wooden spooler you used on Belridge 19?

A. No. We put this one up first by drilling a hole through it and at the same time we took another piece of hardwood and we drilled a hole through it and then—I might say the first one we drilled a hole through it and threaded the line through there, took it off the drum and threaded it through; and the next one we drilled a hole through it and, while that was on, we sawed it in half right down the hole to leave half of the hole on one side of the wood and the other half on the other side of the wood. Then we wound a rope around it and threw it in a fuel tank to see if we couldn't get the oil to penetrate this here second one that we were making because they had powder or dust fly off of this first wooden one, and we soaked this in an oil tank and, when we wore the first one out, we took these clamps apart and put this split wood one in and cinched the clamps back up on it and put it back on the line.

Q. And hung it in the same manner?

A. We hung it in the same manner. We never changed the hanging at all. We changed the hanging a little at first on the first one. We raised the ropes higher and lengthened the ropes out but we didn't change on the second one.

Q. When you spudded in this Belridge No. 19, did you [294] use any spoolers at all on that well?

A. Yes; we made one out of rubber.

Q. Will you please describe that?

(Testimony of J. E. Reed.)

A. We took a Patterson-Ballagh 3-inch drill pipe rubber protector and we took a piece of hose clamp, which was a safety clamp that went around the rotary hole, and we put this clamp around it and then we fastened it the same as we did the old chain line spooler excepting we didn't tie rope up or down on it because we wanted to see how fast that this wire line would wear this rubber.

Q. In other words, you just let it run up and down the wire rope?

A. Yes. We were experimenting to see how much it would wear the rubber.

Q. And how long did you use that spooler in that manner, experimenting as you say?

A. I think we used it until about June or July of 1936.

Q. And then what did you do?

A. Then we made a clamp—we wanted to stop it from moving up and down after we found out—we were all experimenting with it in there. Then we wanted to give this rubber as severe an operation as we could to see if it would stand this kind of abuse, and we found out it did stand it. So we made a clamp then out of 3/16 flat steel and we [295] made this clamp to go around this rubber and we drilled a hole at the top and a hole at the bottom on both sides, which would be four bolts, two at the top and two at the bottom, and we put the same type of bridle or hold-down line on and a hanging line as we had on the wooden one, and also, we drilled a hole through the middle and through the rubber

(Testimony of J. E. Reed.)

and put an Alemite cup on to grease it, to then see how much we could protect it.

Q. In other words, so you would lubricate the line?      A. Lubricate the line.

Q. You say you did that around July, 1936?

A. It was in about July, 1936.

Q. The bridle you referred to, that you put on that spooler—how does it compare with the bridle which is on the model, in the well?

A. Do you mean that model?

Q. Yes.

A. Well, it was a piece of rope tied from that bolt hole.

Q. As I understand your testimony, the one rope went from one of the upper bolts, another rope went from one of the lower bolts, and they met in the bridle, and then a line ran from there?

A. The same as that.

Q. The same as it is here?      A. Yes. [296]

Q. Do you remember what those counterweights were, how much they weighed?

A. I don't know how much they weighed. They had those counterweights made that we used on the the old chain line spooler. They were made out of a piece of pipe, with cement in it and eyes in it, and I don't remember how much they weighed.

Q. Would you just put enough counterweight on to take care of it?      A. To hold this pipe.

Q. And you say you used the same kind of a loop?



(Testimony of J. E. Reed.)

A. We used the same loop on that that we used on the wooden one.

Q. And the line ran from the top of the loop up to the girt, did it?      A. Up to the third girt.

Q. Did the weight of the spooler hang on that line?

A. It held it so it couldn't go down below, perpendicularly or level, as with the side lines there.

Q. In other words, the weight was on the line?

A. Yes.

The Court: Where was that loop fastened on the spooler?

Mr. Caughey: It was fastened——

The Court: Let the witness tell us.

A. It was made different than that. I should have a piece of paper and I can show you [297] better.

Mr. Caughey: Yes. Will you just draw a sketch of that, please? You might put it up here and draw it so the court can see it at the same time.

A. I am not such a good drawer. That is looking sideways at it, with four bolts. This is rubber. This is the line going through here like this, the drilling line, and this was a rope tied from here that went up here about six or eight feet and come back and tied there, and then there was a single rope tied to that and on up to a girt, and this was opposite a girt here, and up to here was 21 feet, three girts. It was tied in through the top of these bolts that went through right here.

Mr. Joseph F. Westall: What is this here?

(Testimony of J. E. Reed.)

The Witness: That is showing the top of it, looking down. Then there was another one tied here like this, with a tail rope tied down like that, because it ran up and down the line like this.

The Court: And these bolts were at the top?

A. That is right; these bolts were at the top and tied into this.

The Court: On each side?

A. It came around like this, like that.

Q. (By Mr. Joseph F. Westall): That was the one you used on what well? A. Belridge 20.

Q. Will you just mark "Belridge 20" on there and the date?

Mr. Caughey: Yes.

Q. The date, you say, was about July, 1936?

Mr. Joseph F. Westall: I think he said June or July.

Q. (By Mr. Caughey): June or July?

A. June or July, 1936.

Mr. Caughey: The sketch made by the witness to illustrate his testimony is offered into evidence as Defendants' Exhibit B.

The Court: It may be received.

The Clerk: Defendants' Exhibit B in evidence.

Q. (By Mr. Caughey): Were those two the only spoolers that you used on the Belridge No. 20 well?

A. Well, we used a spooler later on.

Q. What do you mean by "later on"?

A. This well was completed the first time on or about August 1st and all of the equipment was

(Testimony of J. E. Reed.)

moved out but, during the time we were working on Belridge 20, we were, in a crude way, making another one that was long enough to hold three rubbers.

Q. And where was that used?

A. That was installed at Gibson 7 at the same time we were drilling on Belridge 19, or Belridge 20 I mean.

Q. Was that a Union Oil well? [299]

A. Yes; right close by.

Q. Would you please describe this spooler that you have just referred to?

A. On that particular spooler we took a piece of pipe, and I can't say for sure—it was long enough to hold three of those rubbers. I think it was about 22 inches long. And we split this pipe down. First, we got the right size, and I can't say just exactly what that is. We got the right sized pipe that was the right o.d. of these rubbers, and we slipped these rubbers in the pipe to see if it would go in it and then we split it open or split it down and then we split a piece out of it so that we could have a little more friction, and we welded lugs; in other words, we took nuts and we welded those on the side of this pipe, so that we could put bolts through and clamp this thing up together, and then we put that up on Gibson 7.

Q. Did this spooler have side bridles such as shown in the model here?

A. Yes; that is right.

(Testimony of J. E. Reed.)

Q. Did you have any safety or other lines attached to it?

A. On that particular job we had a loop, that I am showing you on this larger one, and it went up 10 feet, eight or 10 feet, with a pulley in it and we tied—from the top of that pulley we went to another pulley up 21 feet or the third girt. [300] We tied them all from there because we found that was about the right place to tie them. And then we had a weight on the outside on the rig and then, when we finally got it right, we had it the same weight as the line spooler on the outside of the rig.

Q. That weight you are referring to is in addition to the counterweights that are at the bottom, is that correct?

A. Yes. It had nothing to do with this at all. All it did was hold it up.

Q. (By Mr. Joseph F. Westall): What was the date of the Gibson 7?

A. It was in 1936 when we put it up. I think it was about August.

Q. (By Mr. Caughey): August, 1936?

A. Yes.

Q. Could you make a sketch of this last spooler that you referred to, Mr. Reed, and also show the suspension means on top that you referred to?

The Court: We will take a five-minute recess and he may make that in the meantime.

(Short recess.)

Q. (By Mr. Caughey): Will you please explain this to the court, Mr. Reed?

(Testimony of J. E. Reed.)

The Court: I think it would be better if you have your witness illustrate it there. [301]

Mr. Caughey: Yes.

Q. As you go along, will you draw a lead line from the particular part that you refer to and just designate it as 1, 2, 3 or 4, as the case may be?

Mr. Joseph F. Westall: You had better put the name on, if you can.

The Court: You might put 1, 2 and 3 and number each one of those places there. Mark opposite the point there just what you are alluding to.

A. All right. This here is this line that holds the spooler up.

The Court: Mark that "1."

A. And this is the pulley that goes through the line here, and this line—shall I mark that "2"?

Q. (By Mr. Caughey): Yes.

A. This is a line that goes up to a pulley up here and down here, with a counterweight on it.

The Court: Leading from this No. 2?

A. Leading from this No. 2, and goes up and ties to a girt. I tried to use this as a part of the derrick but that doesn't come in. That is where the girts come in.

The Court: Mark that No. "3."

A. And this line goes up and comes down here.

The Court: Mark that "4."

The line comes down to the weight? [302]

A. Comes down to the weight.

The Court: Mark the weight "5."



(Testimony of J. E. Reed.)

Mr. Joseph F. Westall: That is, the weight outside of the derrick?

A. Outside of the derrick.

Q. (By Mr. Caughey): And this line, which you can call 6, is a part of the derrick?

A. Yes, sir; part of the derrick. And there is tin on the back here.

Mr. Joseph F. Westall: You had better mark the derrick.

The Court: Just put on there "Derrick."

A. All right.

The Court: And what is this? Is this a spooler here? A. Yes.

The Court: Mark that in there "Spooler."

Q. (By Mr. Caughey): Make it "Spooler." Just write "Spooler" in there.

A. And this line here is a hold-down line.

The Court: This line from the bottom?

A. From the bottom. This is the rope that goes around here and then this is a slack line, the hold-down line.

The Court: Mark it "Slack line."

Q. (By Mr. Caughey): Mark it "6."

The Court: And where the ropes are fastened, that is [303] at the top of the spooler, is it?

A. That is right, and this is the rope fastened at the bottom.

The Court: Show where the top is of the spooler.

Q. (By Mr. Caughey): Just across the top there?

(Testimony of J. E. Reed.)

A. This is steel with rubber. There are three rubbers there.

Mr. Joseph F. Westall: At the top of the spooler No. 8?

The Court: Mark that "Top."

A. These rubbers that go down through it—do you want them in there?

Q. (By Mr. Caughey): Yes; you might as well show them.

A. These are really close together.

The Court: Below the other, is that it?

A. One below the other, although they are stuck out above the top of the spooler, and this is stuck out below the bottom of the spooler.

The Court: Can the rubbers be indicated by the next number?

Mr. Caughey: Yes.

The Court: Just put along the line there "Rubbers."

Q. (By Mr. Caughey): Did that spooler have the same kind of a bridle or side bridle as shown in the model?

A. Yes; the same thing. It came like this and run over [304] to those counterweights.

The Court: Extending there each side of the spooler?

A. Yes. This was all made out of rope there.

Mr. Joseph F. Westall: And the counterweights?

A. The counterweights were down here.

The Court: Where were your clamps?

A. This was made out of a piece of pipe split in half, and all this represents is a nut we bolted

(Testimony of J. E. Reed.)

on both sides, and, looking down it, it would be like this.

The Court: The line is fastened from the top nut?  
A. The top nut.

The Court: On each side?

A. Yes, because there was a gap between the nut and the line was tied up here and tied there, and that was about eight feet between there, with a pulley there, and then this line was tied at the top of the pulley and went over here and it ran over this pulley and came down here to a counterweight that dragged up and down the side of the derrick, with tin on there.

The Court: How was this pipe fastened?

A. Two sections of the pipe. This is only showing one section.

The Court: It was fastened by these bolts there?

A. That was welded on there. They were rig nuts and we clamped this pipe tight around this rubber. [305]

The Court: You had the nuts and the bolts on inside?

A. That is right. Taking the whole thing, there would be six on each one and 12 nuts to do the whole job.

Q. (By Mr. Caughey): You say it is your recollection that that was installed in Gibson No. 7 in August, 1936, is that correct?

A. That is right.

Mr. Joseph F. Westall: You had better mark

(Testimony of J. E. Reed.)

it down there so it will show when you introduce it in evidence.

Mr. Caughey: The sketch made by the witness is offered in evidence as Defendants' Exhibit C.

The Court: It may be received.

Q. (By Mr. Caughey): Prior to leaving that, Mr. Reed, you described the suspension line from the top and the line at the bottom. Did you have any other line on there?

A. No; we didn't. Well, yes; we did. We had a safety line, what we called a safety line, which was right in the top of this and was welded into it. It was an eye, just an eye, and was welded into that thing and we had a safety line tied up to the derrick.

Q. You had better mark that "Safety line." And in that construction where was the weight of the spooler?

A. On the outside of the derrick.

Q. No. I mean where was the weight of the spooler suspended? [306]

A. Do you mean where did the spooler hang in the derrick?

Q. No. Did this upper line suspend the weight of the spooler?

A. That is right. This line that went over here and down here, with this counterweight No. 4, suspended the spooler.

Q. Do you recall how much of a counterweight you used?

A. We had to cut it off two or three times to

(Testimony of J. E. Reed.)

get the right weight. I don't know but I imagine it weighed about the same as the spooler when we got through, but I never weighed it.

Q. You wouldn't want it to weigh more than the spooler, would you?      A. No.

Q. Did that spooler take up the whipping in the line?

A. It did; it took most all of it out.

Q. When I say "whip," I mean side whip.

A. Side whip.

Q. In using these spoolers, where you had these rubbers in like you have described in this exhibit Defendants' Exhibit C, where would the wear be inside?

A. It would be inside from the line carrying the spooler back and forth, as it had to go through with the line that was rolling on the drum. [307]

Q. That is, it would be in the direction of the side whip?      A. That is right.

Q. I show you, Mr. Reed, two pages which purport to be a record of invention, of which copies have been furnished to counsel for the plaintiffs, and ask you if you can identify the same.

Mr. Joseph F. Westall: Now, let me see. What you showed him was this?

Mr. Caughey: Yes; that is right.

A. Yes, sir.

Q. What is that?

A. It is an affidavit of invention, on April 15, 1936, of a wire line spooler.

Q. I notice the name on there "J. E. Reed."



(Testimony of J. E. Reed.)

A. Right.

Q. On each of the separate sheets. Is that your signature? A. That is right.

Q. It was placed on there what date?

A. April 15, 1936.

Q. And I notice also on there the names of E. F. Prehoda and N. R. Bishop.

A. That is right.

Q. Who were they? [308]

A. They were drillers on the well.

Mr. Prehoda being the gentleman you referred to previously? A. That is right.

Q. And Mr. Bishop was a driller also, is that right? A. That is right.

Q. Did they sign this in your presence?

A. Yes, sir.

Q. Who was this notary, if you know, whose name appears there?

A. It was a notary public in the post office of Los Hills.

Q. And it was notaried on the date stated, is that correct? A. That is right.

Q. Was this a Union Oil form that you used?

A. That was a Union Oil form.

Q. What was done with it after you made it out, this particular instrument? Did you send it in to the Union Oil?

A. I sent it in to the Union Oil and then got a release on it. I sent in and got that and had it notarized and then I had to wait until I got my

(Testimony of J. E. Reed.)

release on the patent from the Union Oil Company.

Q. Before you could do anything with it?

A. Before I could do anything with it. [309]

Mr. Caughey: The record of invention, consisting of two sheets, which the witness has identified, is offered in evidence as Exhibit D and D-1. I believe they should go in together and that they should be attached because they really constitute one complete unit.

The Court: Do you want them attached together?

Mr. Caughey: Yes; I think they should be attached and go in as a unit as Exhibit D.

The Court: They may be received as one exhibit.

The Clerk: Defendants' Exhibit D in evidence.

Q. (By Mr. Caughey): With reference to the drum, where did you attach the upper line that you have referred to, for example, in this Exhibit C?

A. We attached it perpendicular with the center of the drum; in other words, we put it right straight up from the center of the drum, where we attached the top of it.

Q. And did you also do the same on Exhibit B?

A. Yes; we passed it right straight above the center of the rotary drum, which came down and lined it right straight with the center of the rotary drum, and we fastened it 21 feet high. That was because the line has to travel over here and over here and over here and we divided up the distance and got it right in the center of the rotary drum.

(Testimony of J. E. Reed.)

Q. (By Mr. Joseph F. Westall): It was a slack line, too, wasn't it? [310]

A. No; it wasn't a slack line. It held the spooler up. It held it up center. With the counterweight, it held it up a little above center.

Q. I am talking about this——

Mr. Caughéy: Mr. Westall, I am interrogating.

Mr. Joseph F. Westall: I beg your pardon.

Q. (By Mr. Caughéy): Had you heard of any other spooler, with wire or rubber bearings inside, at the time you made any of these spoolers?

A. Not at that time; no.

Q. When did you first hear of a spooler having rubber bearings inside?

A. Well, the first one I heard of was the Grisley, with rubber wheels.

Q. And what was that?

A. Oh, that was rubber wheels, with anti-friction bearings. It had four rollers—or there were eight rollers complete in it, four rollers going one way, and every time the line touched the rollers, it was supposed to roll instead of wearing the rubber.

Q. I show you a copy of Smith Patent No. 2,211,299 and call your attention particularly to Figures 3 and 4. Is that the structure that you have reference to?

Mr. Joseph F. Westall: Before you answer, I would like to object to that. That patent has not been pleaded in the [311] answer. On pre-trial, I believe counsel stated that he had one or two of

(Testimony of J. E. Reed.)

those, that had been cited in the file wrappers, that he would use but he didn't say he was going to use anything else, and I think he is precluded from doing that. And, furthermore, if it is put in for the purpose of showing an anticipation, it has not been pleaded, as required by law, more than 30 days before the trial.

Mr. Caughey: It is not put in to show anticipation at all. That is not the purpose, your Honor. As a matter of fact, I don't know whether I would have used it if the witness hadn't referred to this particular structure. I never knew that he ever saw it until he made this answer. It is not put in for the purpose of anticipation at all and it is a patent that just shows another structure and I just wanted to show your Honor what it is.

Mr. Joseph F. Westall: We call your attention to the fact it was patented August 13, 1940, and he couldn't very well say he saw this patent at that time.

Mr. Caughey: He didn't say he saw that patent. I asked him if that was the structure to which he referred.

Mr. Joseph F. Westall: We object to that as calling for a conclusion of the witness. Counsel has objected a great many times to conclusions of that kind during the preceding testimony.

Mr. Caughey: I don't see how this could be a conclusion. [312]

Mr. Joseph F. Westall: And he has fully described it.

(Testimony of J. E. Reed.)

The Court: This is exhibited to the witness only for the purpose of identifying the particular device concerning which he has testified and for no other purpose?

Mr. Caughey: For that purpose at the present time, certainly.

The Court: Not for the purpose of identifying a patent or anything of that kind but merely illustrative of the wheel arrangement that he testified to?

Mr. Joseph F. Westall: It is just for the purpose, apparently, of piecing out and making his description complete. I say this is just a conclusion. He should have described it sufficiently so as not to require anything else. He has already illustrated it very fully.

The Court: I think he has when he testified that he saw the Grisley device, with rubber wheels, or heard about it, rather.

Mr. Caughey: I could have him draw a sketch of it just the same as he did, but it takes time. The only trouble is taking up time to draw a sketch to illustrate the thing when we have it right here in the patent.

The Court: Is there any objection for that purpose only?

Mr. Joseph F. Westall: I will withdraw the objection.

The Court: For that purpose only and not for any other purpose? [313]

Mr. Caughey: No other purpose at the present



(Testimony of J. E. Reed.)

time at least so far as this witness is concerned. It is offered to illustrate the testimony of the witness for the purpose stated, as Exhibit E.

Mr. Joseph F. Westall: What is that patent number again, please?

Mr. Caughey: Is there an answer to the question, please?

(Record read by reporter.)

Q. Will you answer, please?

A. Yes, sir; that is the one.

Q. Did you testify you saw one in a well or you heard of one?

A. I have seen them in a well.

Q. Where? A. At Bakersfield.

Mr. Joseph F. Westall: Pardon me. I think the witness is relying upon psychic power. He has never seen the patent, has he?

A. Yes; I have seen the patent and it is all right. I have seen a lot of those line spoolers.

Q. (By Mr. Caughey): And when did you see it?

A. I don't know just exactly the year. I think it was in 1938, at the Superior Oil Company.

Q. When did you first hear of the Patterson-Ballagh spooler? [314]

A. Well, it was in along about the 1st of May, I think, around the 1st of—I don't know. It was in the early part of 1937.

Q. In the early part of 1937? A. Yes.

**(Testimony of J. E. Reed.)**

The Court: Do you now refer to that chain arrangement?

Mr. Caughey: No. I am referring to the Patterson-Ballagh spooler and I will more particularly identify it.

Q. When I mention the Patterson-Ballagh spooler, I will ask you if it was a spooler that in any way resembled the spooler shown in this photograph.

A. At this time, I have seen that picture but I never did see this spooler in a rig. I just heard about it.

Q. Oh, you just heard about it at first?

A. That is right.

Q. But you didn't see the spooler in a rig?

A. No; that is right.

Q. You stated something about getting a release from the Union Oil Company? A. Yes.

Q. Did you get such a release?

A. Yes; I got it in May, 1937.

Q. I show you a letter. You have seen this, Mr. Westall. A copy has been furnished counsel.

Mr. Joseph F. Westall: He has already said May, 1937, [315] hasn't he?

Mr. Caughey: He said, according to his recollection, yes.

Q. I show you a letter, on the stationery of the Union Oil Company, and ask you to look at it and state whether that refreshes your recollection as to when you secured the release. A. That is it.

Q. That is it, January 26, is it not?

(Testimony of J. E. Reed.)

A. I thought it was later than that. I didn't know it was that early.

Q. And that is the original release that you secured from the Union Oil Company, is it, Mr. Reed?

A. Let's see the signatures on there. Right.

The Court: What year?

Mr. Caughey: January 26, 1937. The release identified by the witness is offered in evidence as Defendants' Exhibit F.

The Court: It may be received.

Q. (By Mr. Caughey): I also show you another letter, dated January 26, 1937, of which opposing counsel has a copy, apparently signed by Mr. Philip Subkow, who was patent counsel for the Union Oil Company, and ask you if you recognize that letter.

A. Yes; I do. [316]

Q. And that letter was a letter, was it not, in which Mr. Subkow enclosed the release from Mr. Haylett to you?

A. That is right.

Mr. Caughey: The letter identified by the witness is offered in evidence as Defendants' Exhibit G.

The Court: It may be received.

Q. (By Mr. Caughey): You came down to Los Angeles, did you not, to get those releases, Mr. Reed?

A. Yes; I did.

Q. And, when you came down, did you see Mr. Ballagh?

A. I did.

Q. And did you also talk to myself, Mr. Caughey, at that time?

A. I did.

(Testimony of J. E. Reed.)

Q. And what was the purpose of your talking to Mr. Ballagh?

A. Mr. Ballagh had already sent in an application for a patent on this line spooler and we came down here and he thought he was ahead of me on the patent and, when we talked the situation over with you and found out that he wasn't, we brought the patent back out of the Patent Office and it was made out in my name and sent in.

Q. In other words, Mr. Ballagh had previously filed an application for a patent and it was withdrawn and your application filed? [317]

A. That is right.

Q. At that time did you make a deal with Patterson-Ballagh to license them under your application or under your invention? A. I did.

Q. And they have been licensed under it ever since, is that correct? A. That is right.

Q. When did you first use a Patterson-Ballagh protector in a well?

A. The one that Patterson-Ballagh put out themselves?

Q. Yes.

A. It was on the Rio Bravo—well, no; it was Crane Co. 134, is the name of the well. Crane Land Company is what it is, at Rio Bravo.

Q. When was that?

A. That was in 1937 but I don't remember the month.

Q. Was it the early part?

A. The early part.

(Testimony of J. E. Reed.)

Q. With reference to the photograph which I previously showed you, will you state how that line spooler compared with what is shown in the photograph? A. It is the same type.

Q. In other words, it had an eye at the middle, is that right? [318] A. Yes.

Mr. Joseph F. Westall: And what was the date of that?

Q. (By Mr. Caughey): Did you say early in 1937?

A. Early in 1937. I don't just remember the dates but it was before July of 1937.

Mr. Caughey: The Patterson-Ballagh line spooler shown in the photograph is offered in evidence to illustrate the testimony of the witness and to show the line spooler which was installed at Rio Bravo, as defendants' Exhibit H.

Mr. Joseph F. Westall: Installed when?

Mr. Caughey: He said before July, 1937.

The Court: It may be received.

The Clerk: Defendants' Exhibit H.

Q. (By Mr. Caughey): When you installed that spooler in a well, Mr. Reed, how did you suspend it?

A. The same as we show in this drawing that I made.

Q. Which one? A. That one.

Q. You testify you suspended it the same way you show in the drawing Exhibit C, is that correct?

A. Yes; with a counterweight on the outside of the derrick.



(Testimony of J. E. Reed.)

Mr. Joseph F. Westall: What was that date?

A. It was in 1937.

Q. (By Mr. Caughey): And did you attach any line to the [319] eye which is shown in the middle of Exhibit H?

A. Yes; we attached what we called a safety line there; yes.

Q. Was that a taut line or a slack line?

A. A slack line.

Q. And all the weight of the spooler was on the upper line which you have shown in Exhibit C, is that correct?

A. That one there; yes.

Q. That upper line 4?

A. Yes; that is right. We fastened it to those two eyes on this one that you show in the picture, the two top eyes.

Q. And, when you refer to the two top eyes, you refer to the eyes at each side at the top of the spooler in the photograph, is that correct?

A. That is right. Well, this spooler, it didn't make any difference which way you put it up. In other words, there were eyes here and here and you could put it up anyway, because, if it was up, we fastened it to those two top eyes and, if this end was up, we fastened it to those eyes.

The Court: And the weight rested on the suspension from the top?

A. That is right; with that counterweight that we had at the outside of the derrick.

Q. (By Mr. Caughey): Had you heard of Mr. Moss or Mr. [320] Moss' spooler up to the time

(Testimony of J. E. Reed.)

that you installed this Patterson-Ballagh spooler in the Rio Bravo well?      A. No; I hadn't.

Q. When did you first hear of Mr. Moss?

A. About 1944, I think it was.

Q. You never heard of him before that time?

A. No.

Q. Did you ever see any of his spoolers in a well?      A. Not until just about a year ago.

Q. Why did you attach the Patterson-Ballagh spooler at the top instead of hanging it in the middle, putting the taut line in the middle?

A. That would be the normal way to hang anything in a derrick and that is the way we had to hang all the rest of the wooden ones. In fact, the chain was tied from the top.

Q. So that you would suspend the weight from the top and have it hang perpendicularly, is that right?      A. That is right.

Mr. Joseph F. Westall: That last one—what was the date of that last one that he said he hung from the top?

Mr. Caughey: Before July, 1937.

Q. And, when you hung it from the top, the Patterson-Ballagh spooler, in the Rio Bravo well, did it function to take the whipping out of the line?

A. Yes; it took the whip out of the line. [321]

Q. Do you recall how long that spooler was that you had there?

A. I don't think it was over 30 inches long.

Q. Have you ever installed any other Patter-

(Testimony of J. E. Reed.)

son-Ballagh spoolers other than this one in Rio Bravo?

A. We installed them at wells in Rio Bravo after that but they were the long ones.

Q. When you say "long ones," what do you mean?

A. They had six rubbers in them and I would say they were about 40 inches.

Q. And do you recall whether there was an eye in the middle of those or an eye at the top or how many eyes?

A. There was an eye at the top and down a ways on it.

Q. As I recall your testimony, Mr. Reed, so that there won't be any misunderstanding, you testified that on Belridge No. 19, in 1935, you made a spooler, a wooden spooler, which you had two lines on, one at the top and one at the bottom?

A. That is right.

Q. With the upper line used to suspend the weight of the spooler?

A. It was tied up tight enough to hold the spooler right level with the weight lines.

Q. And that that spooler had bridles on similar to that shown here?

A. Yes; that is right, only made out of [322] rope.

Q. And counterweights on it?

A. That is right.

Q. But it was made of wood?

A. It was made of wood.

(Testimony of J. E. Reed.)

Q. And that shortly afterwards, on the same well, you put in another wooden one which had been soaked in oil? A. That is right.

Q. And you used that on the well?

A. Yes, sir.

Q. Then, when you came to Belridge No. 20, you used a rubber spooler about eight inches long and you clamped the iron around it and you had side bridles on it and, to test it out, you let it float up and down the line freely to see how the rubbers would wear?

The Court: He has testified to this, hasn't he?

Mr. Caughey: Yes.

The Court: It isn't necessary to repeat it.

Mr. Joseph F. Westall: Yes, and it is very leading, too.

Mr. Caughey: I don't want any mistake as to what the testimony is.

The Court: The record will show.

Mr. Caughey: And, for example, I may have said "Belridge No. 19" when I meant "Belridge No. 20." In fact, in one instance I think I did.

The Court: If you want to straighten out any errors, you [323] may do so.

Mr. Caughey: I think in one question I made an error as to Belridge 19 and Belridge 20. I want to make it clear that you didn't use any wooden spoolers on Belridge 20? A. No.

Q. They were all rubber, as you have described?

A. They were all rubber.

Mr. Caughey: You may cross-examine.

(Testimony of J. E. Reed.)

The Court: Do you want to begin now or to wait until after lunch?

Mr. Joseph F. Westall: I would just as soon wait until after lunch, your Honor.

The Court: Very well.

Mr. Caughey: Well, there is one more question I might ask.

The Court: Yes.

Q. (By Mr. Caughey): Did those wooden spoolers on Belridge 19 function to take the whip out of the line?

A. Yes; they did a fairly good job. They spooled the line a lot better than the chain.

Q. Did they do as good a job as the other ones you had on Belridge 20?

A. Yes; they did as good a job as the other ones we had on Belridge 20 because they were a little bit longer than the ones we had on Belridge 20. But they wore out too fast. [324]

Mr. Caughey: That is all. [325]

\* \* \*

J. E. REED

the witness on the stand at the time of recess, being previously duly sworn, testified further as follows:

Mr. Caughey: May your Honor please, there was one matter that Mr. Reed wanted to clear up prior to any cross-examination, that he called to my attention, and that was in connection with Exhibit D, which was the record of invention. And, with



(Testimony of J. E. Reed.)

the court's permission, I would like to clear that up.

Q. Mr. Reed, on the back of the record of invention, under "Test," under Item No. 9, it reads as follows:

"Results: It was put up April 15, one rubber, finished the well Aug. 1."

Will you state when you wrote that particular entry in?

A. I wrote that in there after the well was completed.

Q. Do you mean after you made your record of invention? A. That is right.

Q. After you received it back?

A. That is right.

Q. Is there any other part you wrote in after you received the record of invention at the [326] time? A. I don't think there is.

Q. Will you look at it to be sure?

A. No.

Q. The answer is no? A. Yes.

The Court: Let me see that, please.

Is there anything further?

Mr. Caughey: That is all.

### Cross-Examination

By Mr. Joseph F. Westall:

Q. Mr. Reed, you explained the chain spooler. That chain spooler was not at all satisfactory, was it, because of the chipping off of the parts and the falling of sparks, injuring the eyes and likely to injure the eyes of the operator?

(Testimony of J. E. Reed.)

A. That is right.

Q. And it was the unsuccessful nature and impracticability of the chain spooler that led you to undertake to improve it or to get a substitute for it, is that not correct?

A. That is correct.

Q. Now, how many links did the line go through on that chain? A. One link.

Q. And how much does the chain weigh?

A. Oh, I would say—there were six links, the way we [327] put it up, of 1240 chain. For me to say what it weighed, I wouldn't know.

Q. How big was the chain?

A. I don't know. It was a 1240. I would say it weighed about two pounds to the link maybe.

Q. And how large in inches were the lengths?

A. Oh, I would say they were about two inches between the rollers.

Q. And, when the line went in through those links, it had quite a lot of clearance all around it, didn't it? A. It had quite a lot; yes.

Q. So that it did not dampen the vibrations to any extent?

A. It ran up and down the line quite a bit.

Q. And didn't dampen the vibrations to any great extent, is that correct?

A. It ran up and down the line. All it did was to take the big waves out of the line.

Q. You say it took some of the whip but not all, I believe in your direct testimony?

A. Yes.

(Testimony of J. E. Reed.)

Q. Then you made a wooden spooler 6x6, I believe, hardwood, and whittled round, you said?

A. That is right.

Q. With a hole through it? [328]

A. That is right.

Q. 18 inches long?

A. It was 18 inches long.

Q. And you had bridles made of rope, isn't that right? A. Yes; that is right.

Q. And that was the one that was used on Bel-ridge No. 19 well, wasn't it? A. That is right.

Q. That was not satisfactory because the wood would wear off and the dust would fly?

A. That is right.

Q. So you discarded that, did you not?

A. Well, we put another set of wood in there, soaked in oil, that didn't throw the dust like the other one.

Q. But that one wasn't perfectly satisfactory?

A. No, but done a lot better job than the chain, though.

Q. And then, after that, you soaked it in oil. And was it satisfactory after that?

A. Well, it run pretty good only it still wore out too quick.

Q. So that was not practical that way?

A. No. We completed the well with it, though.

Q. You had to discard that because it would not do, is that right? [329]

A. Well, we didn't discard it. I will say we didn't use it any more.

(Testimony of J. E. Reed.)

Q. Well, that is discarding it. Now, on Belridge 20, which was drilled in the Belridge Field in the San Joaquin Valley, that you spudded in in March, 1936, do you know what time in March, 1936?

A. No. It was in about the middle of March, I think it was; maybe the last part. I think it was the last part of March.

Q. 1936? A. Yes.

Q. Then, after that—or how did that spooler work? Was that perfectly satisfactory, the one on No. 20?

A. What we were trying to find out was if the rubber would stand the wear, stand more wear than the wood stood.

Q. And that was experimental?

A. That was experimental.

Q. And that wasn't the complete solution of your problem, was it? A. No, it wasn't.

Q. And in June and July, 1936, you used the rubber spooler. How long was that?

A. This was a rubber spooler that we used first.

Q. How long was that?

A. That spooler was about eight inches, I should judge. [330]

Q. About eight inches long? A. Yes.

Q. And that, as you stated, was not the complete solution of the problem, was it?

A. We wanted to get one longer but we found out that the rubber would stand the wear.

Q. You found in that experiment it would stand the wear? A. Yes.

(Testimony of J. E. Reed.)

Q. When you got to the Gibson No. 7, which you say was about the time of Belridge 20——

A. It was during the time we were drilling Belridge 20.

Q. You took a piece of pipe 22 inches long, slipped rubbers in it and then you split the pipe?

A. That is right.

Q. And welded lugs on the side of the pipe section to bolt it together, and it was suspended on a pulley, wasn't it?

A. That is right.

Q. And the weight was outside of the derrick?

A. That is right.

Q. That was discarded? You discarded that particular construction, didn't you?

A. No; we didn't. We finished that well with it and went back to Belridge 20 at a later date, and deepened the [331] well and put it back on Belridge 20.

Q. That was the one with the weight outside?

A. That is right.

Q. And yet that was not a complete solution of the problem, was it?

A. It was doing a lot better job. I would say it was satisfactory.

Q. But, still, you didn't try to patent that particular construction?

A. Well, that was after I had sent in—or it wasn't after I sent in an application but it was after I had made an affidavit for the one I had already, after March 15.

Q. I believe in your statement here, your rec-



(Testimony of J. E. Reed.)

ord of the invention, you have a drawing here, and I would like to ask you some questions concerning that drawing, and I think, if you will hand it to the court, the original, I will show you my copy of it, that has been furnished by counsel. I call your attention to Defendants' Exhibit D and particularly to the drawing forming the second page of the exhibit and I call your attention to the line marked "G" in the first figure. And I also call your attention to the statement explaining that line "G" on the same page, which reads, "A safety line G is attached to the derrick to prevent the dropping of spooler should the counterweight ropes F break." That was the only function of this obviously slack line, safety [332] line, here, G, wasn't it?

A. That is right.

Q. And the slackness of that line is further illustrated in the side view here, where it shows it is attached with several weights before it is attached to the derrick?

A. That is right. I wasn't interested in the tying of the line up at that time. I was interested in the rubber bearings that went through the line spooler to keep from wearing the cable and also that the rubber didn't wear on the line.

Q. And you do not show nor did you have at that time any conception of putting the line above, supporting it farther up in the derrick, did you?

A. No. We had on the old type of spoolers lines going up there and we had this going out there. I was interested in the wear of the rubber. And

(Testimony of J. E. Reed.)

anyway it was installed was to keep the waves out of the line and spool it properly.

Q. But you didn't show any line in that conception sheet at all and that conception sheet is dated on the 15th of April, 1936. Now, did you work on the well, Belridge 20—you worked on that well, did you?

A. I was drilling superintendent there.

Q. And Gibson 7—did you work on that well?

A. I was the drilling superintendent.

Q. And you know what was going on? [333]

A. Yes.

Q. Did you, after making this Exhibit D out, deliver it personally to the Union Oil Company?

A. I sent it by mail.

Q. You sent it by mail? A. Yes.

Q. On the 15th of April, 1936?

A. I sent it before that.

Q. Oh, you sent it before that?

A. No; I didn't send it before April. I sent it after April 15th.

Q. You sent it after April 15, 1936?

A. Yes.

Q. How long after?

A. Oh, I imagine not more than two or three days.

Q. Yet, according to Defendants' Exhibit G, the letter from Philip Subkow, patent counsel, dated January 25, 1937, and addressed to Santa Fe Springs to you, they did not apparently pass upon this conception until January 25, 1937?

(Testimony of J. E. Reed.)

A. That is right. They held it a long time before they passed on it.

Q. You say you wrote certain things in this conception sheet, Defendants' Exhibit D, after its date. How long after its date did you write those things in?

A. Right after the well was completed—or, no—in— [334] I didn't write it in there until about, I would say, February 1, 1937, probably.

Q. February 1, 1937?

A. Yes. I don't say February 1st. I say in the latter part of February, 1937.

Q. It would be February 28th or '9th, wouldn't it, the last part?

A. Well, I don't know. I am not too sure about that.

Q. I believe you stated that at some time you knew Ballagh had applied for a patent on what you considered your device. When did you first learn that Mr. Ballagh had applied for a patent on it?

A. Well, it was after January of 1937.

Q. After January, 1937, that you heard that?

A. Well, I am not too sure about that date, either. I didn't hear he applied for a patent. I heard he was working on one at that date.

Q. When did you first hear he had applied for a patent?      A. I think it was April, 1937.

Q. And then in May, as you will recall, you filed your patent application, May 22, 1937, for patent No. 2,238,398? That is correct, is it?

(Testimony of J. E. Reed.)

A. Yes.

Q. I call your attention to the drawing on the Reed patent. I will hand it to the court and I will show you my [335] copy and call your attention to the ring or lug 28 which is in the middle of the spooler, the hanging line extending upward from the middle of the spooler. That was what you filed on May 22, 1937, obviously, wasn't it?

A. Yes; but that was turned over to the patent attorney. After the agreement was made with Ballagh, it was turned over to the patent attorney and he filed the patent claims.

Q. Well, you signed it, didn't you?

A. Yes, I signed it and I told him to go ahead and get the patent and I would pay for the patent.

Q. And that is your signature there as inventor, isn't it?      A. That is right.

Q. When did you license Patterson-Ballagh to manufacture and sell devices such as shown in said Reed patent which is referred to, No. 2,238,398, Plaintiffs' Exhibit 2?

A. It was in May, 1937.

Q. The date of your filing?

A. It was some time in May of 1937 was the time we changed the patent over to my name and sent it in and we made an agreement.

Q. And that is when you licensed them under it?

A. That is right.

Q. You gave them a written license? [336]

A. That is right.

Q. You provided for a royalty in that license?

(Testimony of J. E. Reed.)

A. That is right.

Q. And did you collect your royalty?

A. Yes, sir.

Q. What rate or percentage was your royalty?

A. 10 per cent on the rubber that was used in the rubbers.

Q. Is that all, just 7 per cent on the rubbers?

A. Yes.

Q. And that license still continues in effect?

A. That is right.

The Court: 7 or 10 per cent?

A. 10 per cent.

Q. (By Mr. Joseph F. Westall): And that continued in effect up to the present time?

A. Yes.

Q. And you are still drawing your royalties?

A. That is right.

Q. How did you happen to decide that, while Ballagh had been working on the patent, Ballagh wasn't the proper man to file the application?

A. Because he wasn't the inventor, I didn't think, and that I was ahead of him.

Q. And he decided that you were? [337]

A. That is right.

Mr. Joseph F. Westall: I believe that is all.

### Redirect Examination

By Mr. Caughey:

Q. I believe you testified on cross-examination the first time you knew that Mr. Ballagh filed an application was in April?

A. In April, 1937.



(Testimony of J. E. Reed.)

Q. 1937?

A. Yes. I am not too sure on that date.

Q. Do you recall, Mr. Reed, of meeting Mr. Ballagh and me, in my office, in January, when we went over that matter, in 1937, and you came down from Belridge, when you got your release from the Union Oil?

A. Yes; that is right; I did come down. I had forgotten. We had two sessions in there. I had forgotten about that one.

Q. Does that refresh your recollection?

A. That is right; I was down there after January 28, 1937. But that wasn't the time I signed the agreement.

Q. No. That is correct.                      A. No.

Q. Mr. Westall, on cross-examination, inferred that that spooler you used on the Belridge No. 20 well, which had a bridle and lines on it, was experimental. Would you call [338] that experimental?

Mr. Joseph F. Westall: I object to that as calling for a conclusion of the witness. He has already stated the fact that it was used and discarded.

Mr. Caughey: He didn't say it was discarded. You said it.

Mr. Joseph Westall: That it was used and tried out. But it was evident it wasn't used; that it wasn't what they were looking for. His final patent application shows what they were trying to patent.

The Court: On direct examination, he said it was experimental.

(Testimony of J. E. Reed.)

Mr. Caughey; Just the first one that was used, the one that run up and down the line, the one that didn't have any side bridles on at all.

The Court: You may inquire.

Q. (By Mr. Caughey): Referring to the second spooler that you used, that is, the one with the bridles on, on Belridge 20, and also the third one, which was used on Gibson 7, and also the Belridge, would those perform or did they function to take the whip out of the line?

Mr. Joseph F. Westall: I think he has already testified to that and I think counsel is attempting to get him to vary his testimony. He testified that they were experimental and were tried and then they changed to something else, trying to [339] get perfection. That is what I mean by "experimental." That wasn't the final solution.

The Court: I think, if the witness is going to explain, he should explain himself without having suggested to him whether it was experimental or otherwise. He has already testified to it, I think.

Mr. Caughey: He testified the first one was experimental.

The Court: The first one was the chain, was it?

Mr. Caughey: No; on Belridge 20; the first one was the rubber one that he ran up and down the line to see how long the rubbers would wear.

Mr. Joseph F. Westall: He certainly testified that was experimental.

Mr. Caughey: That is correct.

The Court: And then he said as to that one it

(Testimony of J. E. Reed.)

was rather short and they wanted a long one and then they supplied another one.

Mr. Caughey: That is correct.

The Court: If he wants to make a further explanation in his own language, he may.

Mr. Caughey: All right; let him explain as to that.

A. Which one?

Q. The second one, that was used on Belridge 20, where you used a side bridle and the lower line and the upper line on it, and also the third one, where you had the counterweight [340] on it.

A. I will say this. The second one we had at Belridge 20 didn't take all of the whip out of that line. The one we had at Gibson 7, which we put three rubbers in, was satisfactory.

Mr. Caughey: That is all.

Mr. Joseph F. Westall: That is all.

Mr. Caughey: Mr. Prehoda.

#### E. F. PREHODA

called as a witness for the defendants, being first duly sworn, testified as follows:

The Clerk: Will you state your name, please?

A. E. F. Prehoda.

#### Direct Examination

By Mr. Caughey:

Q. Where do you reside, Mr. Prehoda?

A. 208 El Tejon Avenue, Oildale, California.

(Testimony of E. F. Prehoda.)

Q. That is near Bakersfield?

A. That is a suburb of Bakersfield; yes, sir.

Q. What is your present occupation?

A. I am a drilling foreman for the Santa Fe Drilling Company.

Q. How long have you been employed by that concern?

A. The Santa Fe Drilling Company was recently organized and I have just been with the Santa Fe Drilling Company [341] one year. Prior to that time I was with the Union Oil Company for 25 years.

Q. 25 years?            A. Yes, sir.

Q. While you were with the Union Oil Company, what were your various positions?

A. I was a tool dresser, a derrick man and a driller.

Q. Do you know Mr. J. E. Reed, who was previously on the stand?            A. I do.

Q. Did you ever work under him?

A. I worked under Mr. Reed for over 20 years.

Q. Did you work under him at Belridge No. 19 well?            A. I did.

Q. And when was that? What time?

A. That was in May, 1935.

Q. And when was the well completed?

A. In about August, 1935; probably the last part.

Q. Do you recall a line spooler being used on that well?

(Testimony of E. F. Prehoda.)

A. I recall the first block line spooler used; yes, sir.

Q. Have you heard the testimony of Mr. Reed? Were you in the court room while he was testifying? A. I was.

Q. Did the block that was described by him— was that [342] the one you have reference to?

A. It is.

Q. Do you agree with his testimony that that was a correct construction of the block?

A. I do.

Q. Was there any other spooler used on that well except that block spooler you have reference to?

A. We had two block spoolers used on this well.

Q. You did? A. Yes, sir.

Q. Did you have anything to do with constructing that block spooler?

A. I helped make five of them.

Q. What did you do?

Mr. Joseph F. Westall: Let me ask you just what block spooler is that?

A. The wooden spoolers.

Q. (By Mr. Caughey): What did you do?

A. I helped shape them. I helped bore the holes in the first line spooler, which was made of hardwood, and I hung the first line spooler.

Q. Will you state how that first line spooler was hung?

A. It was hung by a bridle. The bridle was anywhere from five to six feet and in its loop it was—it was tied with a single line in the center of the



(Testimony of E. F. Prehoda.)

spooler, that is, of [343] your loop, and fast to the girt about 45 feet from the floor.

Q. How high was the spooler in that well?

A. 24 feet; the third girt up.

Q. And where was that loop tied?

A. That loop was tied on both sides of the center of the clamp.

Q. And when you say "clamp," do you mean the clamp surrounding—

A. The clamp surrounding the wood itself.

Q. And were there side bridles and counterweights on that?

A. There were side bridles and counterweights on that.

Q. How about the second wooden spooler?

A. The second wooden spooler was a little different than the first in the respect that it was bored first, then cut down through the middle and shaped as round as possible, with what we had to shape it with. The same clamps that were around the first one were around the second one, one on top and one on the bottom. The only difference was we cut this second one down through the middle after being bored. The first one, we put the line through it intact. It was just made as near round as possibly could be made from a square, 6x6.

Q. And otherwise, as to hanging and everything else, it was the same? [344]

A. Absolutely the same.

Q. You were familiar with the old chain spooler, weren't you?           A. Yes, sir.

(Testimony of E. F. Prehoda.)

Q. Mr. Reed in his testimony stated that you got something in your eye from one of those, is that correct? A. That is correct, sir.

Q. And injured your eye?

A. That is why I am wearing glasses today.

Q. And do you recall how those chain spoolers were hung? A. Yes.

Q. How were they hung?

A. We used the chain spooler. Do you want a description of this chain?

Q. Yes.

A. We used there three to four links—it all depended on what job you might be on—of twelve-foot chain. It is about 2½ to 3 inches long in length of the chain link itself. We used three on each side. Say you would have seven altogether, counting your center link. The line went down through the center of the middle link. Then it extended over to both right and left to a weight, through a pulley, something similar to the way you have this structure here.

Q. When you say “this,” do you mean the counterweights [345] on either side?

A. On either side of center. Then we had a safety line which went usually on the first link, past the center of the line. The object of this was, in the event that this chain link would break—the one on the far side of the center line would never strike anybody unless, by chance, somebody was walking over there, but the one on the left-hand side would always strike the driller. He couldn't

(Testimony of E. F. Prehoda.)

get out of the way because the weight itself extends only up about a foot or 18 inches from the floor and, in the event that the chain would break, it would strike the driller. So that is why the safety line was installed on this chain. So, while you had one, you might just as well have both of them and be safe for anybody walking on the opposite side. So we had two lines.

Q. One on each side of the chain and at the center?

A. The central part; yes; the first link in from where the line traveled in the center line.

Q. Did you work on Belridge No. 20?

A. I did, sir.

Q. Were you a driller on that?

A. I was a driller.

Q. Do you recall using a spooler on that well?

A. I do.

Q. Will you describe the first spooler you used?

A. The first spooler we used was a clamp, a safety [346] clamp, that is used on a rotary hose, a six-inch rotary hose. This clamp was just a safety factor on a hose that has a line attached to the derrick so, in the event the hose would blow up, it couldn't drop down. We put this rubber inside and they clamped it together and then we put our ordinary guide, the same as we have on our chain assembly, on this clamp, with a rubber protector installed inside. We did not have it suspended.

Q. You let that run up and down, did you?

A. We wanted that to run up and down because

(Testimony of E. F. Prehoda.)

the discussion at that time was the more it rubbed the faster it would wear, and how much it would wear we did not know. So that was the finest way to find out. Due to dry lines, you would have a certain amount of friction and that friction would, naturally, wear this rubber. So, in letting it run up and down in the derrick, that was our only way of knowing.

Q. Did the friction on the line carry it up?

A. Sometimes it would and sometimes it would go up five and eight feet, just whipping.

Q. How long did you use that on Belridge 20?

A. We used that particular type to about the middle of June.

Mr. Joseph F. Westall: What year?

A. 1936.

Q. (By Mr. Caughey): What did you use [347] then?

A. Then we made one out of strap steel, which was a little bit thicker and it was a little bit wider, and we put the same type of rubber inside. This time we bored a hole through the back of this clamp and we inserted an Alemite job. The object of this Alemite job through the steel as well as through the rubber was to form a lubrication of the inside of this rubber to see if we could eliminate a friction, which was dry in the previous experiment.

Q. Did you put any side bridles on it?

A. We had the side bridles on just the same as on this one.



(Testimony of E. F. Prehoda.)

Q. Did you have any other lines on?

A. That is the extent of that line with the exception of the tail line we had down.

Q. Did you have any line at the top on that one?

A. I think we had our bridle affair just the same as on our previous wooden ones. That went through a loop around five to eight feet, on a bridle effect. Then it was fast on the seventh girt, or 45 feet.

Q. Was there any other spooler that was used on the Belridge 20 besides those two that you have described?

A. That is the only spooler we used on Belridge 20 at that particular time. This well was about to be completed as we were constructing the next type.

Q. And what do you refer to by "the next type"? [348]

A. The next type was the pipe effect which was slotted in the middle on both sides. It had three sets of three-quarter nuts, two on each side on the top, two in the middle and two on the bottom, making 12 in all. There was also a section cut out of the center of this pipe in order to get a squeezing effect or a friction against the rubbers used, of which there were three Bettis protectors. We squeezed this up and on the top side, about two inches down, we had an eye. This eye was originally a handle that we used in setting 7-inch slips in casing. We had nothing else to make an eye out of. The welder was there and we cut this off and welded this eye



(Testimony of E. F. Prehoda.)

in the top of the spooler, in the back. To that eye we attached a safety line. Then, on the——

Q. Just a second. Where was the other end of the safety line attached?

A. The other end of the safety line was attached 45 feet up in the derrick. That is 21 feet above the top of the spooler.

Q. Proceed.

A. Then, on the bottom was a bridle with a loose tail line which had the same safety effect of going up as the top one has coming down.

Q. Did you have any bridle on the top of that?

A. On the top of this pipe effect we had through this nut affair, that was the friction clamp—we had a bridle and [349] on this bridle we put a hay pulley. This hay pulley on the top had a casted eye. This casted eye wouldn't stand our safety inspection so we had to take this cast eye and, in place of it, put in a steel one. In that eye we inserted a rope. This rope went up 21 feet above the spooler itself, which was setting at 24 feet through a pulley hanging from the girt. That also had an eye removed, which also had a casting, and that had to be steel, and through this rope it went over the back side of the derrick to a counterbalance or weight about 10 inches above the engine house.

Q. That counterweight was on the outside of the derrick, was it?

A. On the outside of the derrick.

Q. What was the height of the loop?

(Testimony of E. F. Prehoda.)

A. Around five to eight feet.

Q. Did you vary that loop any?

A. We did because we didn't know how long or how short to make it. We started out with the first one only about three feet, that is, the loop was three feet from the center of the spooler to the top of the pulley. Then we finally got up to where it was around eight feet.

Q. Why did it work better at eight than three?

A. It seemed to be the logical place for the spooler to handle itself correctly.

Q. Do you mean to hang better?

A. To hang more in a perpendicular [350] manner.

Q. Where was that particular type used, that particular spooler?

A. That particular spooler was used over at Gibson 7. It was also moved from Gibson 7 onto Belridge 20 on the redrill job on this particular well.

Q. Were you on the re-drill job?

A. I was, sir.

Q. Do you recall when that re-drill job took place?

A. That took place in the last of November or into the last of December.

Mr. Joseph F. Westall: What year?

A. 1936.

Q. (By Mr. Caughey): And do you recall that definitely?

(Testimony of E. F. Prehoda.)

A. Yes, because Christmas Eve of 1936 I was swabbing Belridge 20 the second time.

Q. The first time it came in on July 31st?

A. In July 31, 1936, it came in the first time. We reconditioned this hole due to the fact that we had produced this well from what was known as the Top Wagon Wheel; in other words, the top zone of that area. They wanted to know whether or not we had a lower zone there that was productive. So they decided to kill this well, pull the liner and go back in and try and dig 18 feet of that lower zone to see if it was wet or dry. That is why we went into it the second time.

Q. Did you have anything to do with making this type [351] that you just talked about?

A. That is where I helped make the first type; yes, sir. The last one you are speaking about, with the three rubbers. I did; yes, sir.

Q. Did you see that in operation in the well?

A. I did. As a matter of fact, I used it the last time it was used, right on Belridge 20.

Q. Did it function to take the whipping out of the line?      A. It did.

Q. Did it cause the line to spool properly on the drum?

A. It did. As a matter of fact, at the time we were using this three-rubber job, we were even contemplating going to four or more. We still even figured we might use six.

Q. But three was satisfactory?

(Testimony of E. F. Prehoda.)

A. Three was satisfactory, perfectly okay, and worked fine and was a success.

Q. Had you ever heard of Mr. Moss or anything about the Moss spooler up to that time?

A. No, sir; I had never heard of Mr. Moss.

Q. When did you first hear of Mr. Moss?

A. Right here in this court room.

Q. When did you first hear of a Patterson-Ballagh spooler? [352]

A. The first I heard of a Patterson-Ballagh spooler was I heard of it in the early part of the summer of 1937.

Q. And when did you first see one?

A. On September 2, 1937, at Rio Bravo, 1-34, Kern County.

Q. Was the well in operation when you saw it?

A. The well was 10,000 feet deep, sir.

Q. It had been drilling for some time?

A. Since March or April. I was in Kettleman Hills at the time.

Q. You came from Kettleman Hills over to that?

A. That is right, sir.

Q. And, when you came to the well, it was in place?

A. The line spooler was in operation.

Q. And how was it hung?

A. It was hung exactly like the last one we had at Belridge 20.

Q. With a counterweight?

A. With a counterweight coming from the back side of the derrick.

(Testimony of E. F. Prehoda.)

Q. As shown in this Exhibit C, this sketch?

A. That is right, sir.

Q. And what line, if any, was attached—strike that. I will show you a photograph which is in evidence as Defendants' Exhibit H. Will you please state whether the line [353] spooler you saw on September 2nd in any way resembled that line spooler?

A. Yes; that is exactly what it looked like.

Q. And what, if anything, was attached to the eye that is shown in the middle of Defendants' Exhibit H?

A. A  $\frac{3}{8}$  flexible wire line.

Q. Was that a safety line?

A. That was a safety line, attached 21 feet above the spooler, the third girt above the spooler.

Q. Where was the weight of the spooler when that was suspended?

A. It was suspended on a counterweight.

Q. Have you seen any other Patterson-Ballagh spoolers suspended since that time?

A. Yes.

Q. Did you suspend them yourself?

A. Yes.

Q. And how have you suspended them?

A. More of an angle, from a pulley on the girt, to an area back across to the spooler itself, without a counterweight?

Q. Another means of suspension?

A. Another means of suspension.

Q. Did you have anything to do with the sus-



(Testimony of E. F. Prehoda.)

pending of the Patterson-Ballagh spooler in Rio Bravo? [354]

A. No; I didn't. It was in operation when I came there.

Q. In winding a wire on a drum, the thickness increases, of course, as you wind it up, doesn't it?

A. That is right, sir.

Q. So, as the thickness increases, that means that the position of the line coming down is thrown further into the center of the derrick, is that correct?

A. That is correct.

Q. How many thicknesses would there be on a drum?

A. That usually depends upon the height of your derrick. I would say in some instances probably  $3\frac{1}{2}$ ; maybe 4.

Q. And what is the diameter of the wire that was used?

A. One inch at this particular time; an inch to an eighth on taller derricks.

Q. So three thicknesses would throw it out three inches and four thicknesses would throw it out four inches?

A. Yes, sir. It also depends on how many lines are run.

Q. Have you hung any Patterson-Ballagh protectors as shown in Exhibit H? Did you ever hang any of those yourself, with the eye in the middle?

A. I recall hanging one, I believe; but I wouldn't make a positive assertion on that. [355]

Q. You are not sure?

(Testimony of E. F. Prehoda.)

A. I am not sure.

Q. Mr. Prehoda, I show you Defendants' Exhibit D in this action and call your attention to the signature "E. F. Prehoda" which appears thereon. Is that your signature?      A. That is, sir.

Q. And when did you place it on there?

A. I placed that on there some time in 1936. Just what the date was of that, I would have to go back and ascertain.

Q. Did Mr. Bishop sign at the same time you did?      A. He did.

Q. And did you sign before a notary public at that time?      A. No, sir; we didn't.

Q. Was it with reference to the drilling of that well when you placed your signature on there?

A. Yes, sir.

Q. When that was being drilled?

A. Yes, sir.

Q. And at the time you signed it, did you note the drawing and the description that was on it?

A. That I don't recall.

Q. Just above your signature?

A. That I don't recall. [356]

Q. Mr. Reed had previously described to you a line spooler, had he, and you had helped him build it?      A. That is right, sir.

Q. You understood the purpose and function of it, did you?      A. That is right, sir.

Mr. Caughey: That is all.

Mr. Joseph F. Westall: No cross-examination.

Mr. Caughey: Mr. Ballagh, please take the stand.

J. C. BALLAGH

called as a witness for the defendants, being heretofore duly sworn, testified further as follows:

The Clerk: Your name is J. C. Ballagh?

A. Yes, sir.

The Clerk: This witness has already been sworn.

Direct Examination

By Mr. Caughey:

Q. You are the same J. C. Ballagh who previously testified in this case? A. I am.

Q. And you have been sworn?

A. Yes, sir.

Q. Mr. Ballagh, I show you Defendant's Exhibit H in this case and ask you if you can identify it. A. Yes, sir. [357]

Q. What is it?

A. It is a wire line guide made by Patterson-Ballagh.

Q. When was that picture taken?

A. It was taken in 1936. I will have to refresh my memory to get the exact date. I know it was in 1936 and I know where it was taken.

Q. Where was it taken?

A. It was taken on the elevator of the Patterson-Ballagh factory.

Q. And where was that?

A. 1900 East 65th Street.

Q. The same place you are now?

(Testimony of J. C. Ballagh.)

A. Yes, sir.

Q. Who took the picture? A. I did.

Q. You said you would have to refresh your recollection. Have you some means of refreshing your recollection?

A. I have an index of the pictures and a diary. That is the index.

Q. In other words, Mr. Ballagh, you keep a record of films you take, so that you can check back and see when you took them, is that correct?

A. Yes, sir.

Q. I note on the back of this picture it says "590-10." Does that mean anything? Or [358] "594-10."

A. Yes; that is roll No. 594. That would be the roll number, 594, and the sixteenth picture on the frame. It is 594 over 10. That means the tenth frame.

Q. Have you that negative here available?

A. Yes, sir; this is it.

Q. And that is the roll in which the negative appears of that particular picture?

A. Yes, sir.

Q. And when was that particular picture taken?

A. On 6-27-1936.

Q. June 27, 1936? A. Yes, sir.

Q. And Patterson-Ballagh had manufactured the spooler as is shown in this picture, which is Exhibit H? A. Yes, sir.

Q. That is their manufacture?

A. Yes, sir.

(Testimony of J. C. Ballagh.)

Q. You were one of the original partners, were you not, in Patterson-Ballagh, when it was a co-partnership?      A. Yes, sir.

Q. And one of the principal owners of the corporation?      A. Yes, sir.

Q. I show you a group of documents, which are attached together, which apparently is on some document of the Patterson-Ballagh Corporation, Ltd. I will ask you if you can identify [359] it?

A. Yes, sir; it is a purchase order for a 16-inch wire line spooler, from the Reserve Oil and Gas Company, to which is attached a bill of lading, from the Oil Well Express Company, and a delivery ticket of Patterson-Ballagh Corporation, Ltd., and their invoice No. 892, to the same company.

Q. And what does that invoice cover?

A. It covers one of these wire line spoolers.

Q. When you say "these wire line spoolers," what do you mean?

A. Similar or the same as the one shown in the photograph.

Q. Exhibit H?      A. Yes, sir.

Q. Do those documents show when that was shipped or sent to the Reserve Oil Company?

A. Yes, sir; it shows "7-15-1936."

Q. To what Reserve Oil Company well, if you know?

A. That is to the only well that they were drilling at that time, as far as I know. It is at the Grapevine, just over the Ridge Route as you



(Testimony of J. C. Ballagh.)

are going towards Bakersfield, on the east side of the road.

Q. To the right of the road as you are going to Bakersfield?

A. To the right of the road as you are going to Bakersfield. [360]

Q. And are these the original records of the Patterson-Ballagh Corporation——

A. Yes, sir.

Q. ——showing that sale? A. Yes, sir.

Q. And was that spooler actually delivered to the Reserve Oil Company? A. Yes, sir.

Mr. Caughey: The records identified by the witness and showing the transactions testified to are offered in evidence as Defendants' Exhibit I.

The Court: How many documents are there?

The Clerk: Five, your Honor; a purchase order, a bill of lading, a delivery ticket, an invoice—and what was the other document?

Mr. Joseph F. Westall: I have got one of them. Well, this is another one.

The Court: They may be received.

Q. (By Mr. Caughey): I show you another group of documents, which are attached together, and ask you if you can identify this particular group.

A. Yes, sir. It is a delivery ticket of the Patterson-Ballagh Corporation, Ltd., showing the delivery of one 32-inch cable spooler to the Shell Oil Company, followed by a delivery [361] ticket of the California Bettis Company, also of Los Angeles,

(Testimony of J. C. Ballagh.)

and a memorandum, in my handwriting, regarding the billing, and a purchase order of the Shell Oil Company for the purchase of the wire line spooler, and an invoice of the Patterson-Ballagh Corporation, Ltd., No. 1124, showing the invoicing of one 32-inch wire line spooler, dated November 5, 1936.

Q. I note, by reference to these documents, that the lower one, which is a blue sheet, is dated 7-22-36, and says, "Cable spooler taken out by J. C. Ballagh." Will you please explain the difference in time between 7-22-36 and the date of November 5, 1936, when the same was billed?

A. It was sold to the Shell Oil Company on an approval basis and they were to pay for it if they found it satisfactory; and, as soon as they accepted it, they gave us the purchase order for the spooler and we then billed it. We were not allowed to bill until we had received a purchase order.

Q. Does any of that group of documents show when the spooler was delivered?

A. Yes; the Shell Oil Company purchase order shows that the material was received on 7-16-36.

Q. And was the spooler that was referred to the same spooler shown in Exhibit H?

A. It was the same design and idea. It was made from the same identical pattern. I am not quite sure but that may not be the exact one but it was one exactly like it, if it wasn't [362]

Mr. Caughey: The documents identified by the witness, being purchase orders and invoices, are offered in evidence as Defendants' Exhibit J.

(Testimony of J. C. Ballagh.)

The Court: That may be received.

Q. (By Mr. Caughey): Mr. Ballagh, I note, in your handwriting and attached to that group and dated 8-27, some writing. When did you make that writing, if you recall?

A. I think I wrote it on that same date because I have the date of 8-27, and I always try and put the date on which I make a memorandum, and I would say that I wrote it on that date.

Q. What year?

A. That would be 8-27-1936.

Q. Did you ever visit the spooler that was put up at the Reserve Oil Company? A. Yes, sir.

Q. Did you ever take a picture of that spooler?

A. Yes, sir.

Q. Mr. Ballagh, were these sales to Shell Oil Company and the Reserve Oil Company the first sales that Patterson-Ballagh made of these spoolers?

A. Yes, sir; to the best of my recollection.

Q. Those were the first sales that were made up through August, is that correct?

A. Yes, sir. [363]

Q. I show you a photograph, showing a line spooler in position, and ask you if you can identify it?

A. Yes, sir; that is the spooler of the Reserve Oil and Gas Company.

Q. And who took the picture? A. I did.

Q. And, from your records, can you tell when that picture was taken?

(Testimony of J. C. Ballagh.)

A. Yes, sir; from my diary. I have the notation on the diary.

Q. Do you mean your personal diary?

A. Yes; my personal diary.

Q. This is a personal diary that you keep, a yearly personal diary, is it? A. Yes, sir.

Q. That you keep every year?

A. Yes, sir.

Q. And this is the one for the year 1936?

A. Yes, sir.

Mr. Joseph F. Westall: May I see the entry when you find it? A. Certainly.

Q. This certain picture was taken on August 5, 1937?

The Court: 1936?

A. Yes. [364]

Q. (By Mr. Joseph F. Westall): There is no indication in there what photograph it was or what well, is there? A. No.

Q. How do you fix that time?

A. I was en route home from a trip I had made to Northern California and I stopped the morning of August 4th, at Grass Valley, and I took a picture of this classmate of mine from college, with his children, and I stopped overnight just north of Fresno and I arrived in Los Angeles on August 5th and, as I passed by the property of the Reserve Oil and Gas, where they were drilling this well, I stopped and went over and took the pictures, and it is the next picture taken following the one I took of Jack Mann at Grass Valley.

(Testimony of J. C. Ballagh.)

Mr. Joseph F. Westall: Let me suggest this. There is nothing in this entry here that shows the facts testified. It must be remembered wholly by the witness' memory.

Mr. Caughey: It will be more than his memory if you will let me proceed.

Q. Have you the negative there——

A. Yes, sir.

Q. ——from which that print was made?

A. Yes, sir.

Q. And what is that frame number or roll number?      A. 601-5. [365]

Q. I note on the back the figures "601-5." What is that?

A. That is roll 601 and the fifth frame in the roll

Q. And do you find the negative for that?

A. Yes, sir.

Q. Do you have it there with you?

A. This is the negative; yes, sir.

Q. Will you show it to the court?

A. Here is the negative and here is the contact print and those two frames in question.

Q. And how do the negatives on that roll run? I mean as we look at them. Which one was taken first?

A. They run in numerical order, with that number on the frame starting in with No. 1 and going through No. 7, and were taken in the order of their numbering.



(Testimony of J. C. Ballagh.)

Q. What is the first one, the first print that is shown on that?

A. The first print is a picture of Jack Mann and his son and so are the second, third and fourth; and the fifth, sixth and seventh are the three negatives of the wire line guide at the Reserve Oil and Gas Company.

Q. Where was that negative of Mr. Mann taken?

A. Up in Grass Valley.

Q. And when does your personal diary show that you visited Jack Mann at Grass Valley? [366]

A. I visited him on August 4th.

Q. Is that stated in your diary?

A. Yes, sir.

Q. Will you please show that to the court? And when were those entries in that diary made, Mr. Ballagh?

A. They were made at the same time, I think that same identical day. I kept my diary running constantly. I, as a rule, made the entries at night of what happened during the day.

Q. And you can state, then, positively, that that picture of the Reserve Oil Company well, showing the spooler, was taken on your trip back from Grass Valley?

A. Yes, sir.

Q. And you were in Grass Valley when?

A. On August 4th I left there.

Q. And you came directly to Los Angeles?

A. Yes, sir.

Q. Does that correctly depict the way that the spooler was hung in the well?

A. Yes, sir.

(Testimony of J. C. Ballagh.)

Q. From the two hanging lines at the top, is that correct?      A. Yes, sir; that is right.

Q. And with no lines attached to the middle eyes at all? [367]      A. No, sir.

Mr. Caughey: The photograph identified by the witness is offered in evidence as Defendants' Exhibit K.

The Court: It may be received.

Q. (By Mr. Caughey): When you manufactured the spoolers which were sold to the Shell and to Reserve, did you manufacture them one at a time or did you manufacture a number?

A. After the initial first one we made, we made them in line of about 12; either 12 or 24.

Q. That is, you would cut that up——

A. We would make one cut on the pipe and then we would slot the full length of the pipe at once and we would weld them at one time. So the first ones we made were alike.

Q. And they were all made with two eyes, one on each side of the middle?      A. Yes, sir.

Q. They all had two eyes?

A. No; one eye on each side.

Q. And bolted together as shown in the picture?

A. Yes, sir.

Q. They were not cast, were they?

A. No. Those were identical halves, made out of pipe that was slotted, and side bars welded and the side bars acted as wings that held the halves together.

(Testimony of J. C. Ballagh.)

Q. And you made that stock up, you say, and had it [368] available? A. Yes, sir.

Q. Did you sell very many spoolers during the remainder of 1936, or into 1937?

A. No; not many. I think maybe a dozen. I would say less than two dozen of them.

Q. Do you recall whether you made another batch or cut another batch up before you—strike that. Did you cut another batch up of the ones like are shown——

The Court: Did you say 1936 or 1937, that this number was sold?

Mr. Caughey: In 1936 and 1937; both 1936 and 1937.

The Court: He sold about a dozen or not more than two dozen?

A. Yes, sir; of this particular style.

Q. (By Mr. Caughey): As shown in Defendants' Exhibit H? A. Yes, sir.

Mr. Caughey: What was the question?

(Question read by reporter.)

Mr. Caughey: I will strike that out.

Q. Do you recall whether or not there was another batch made up in addition to the batch you have already testified to?

A. I think we made a second batch and then a third batch. I didn't spend much time in the shop manufacturing, [369] so I am not sure, but I am very sure we made more than this one batch. I think we made a second batch and very possibly a third batch.

(Testimony of J. C. Ballagh.)

Q. Will you state why the eye was put in the middle, Mr. Ballagh, on these particular spoolers?

A. It was to attach a safety line to the side of the derrick to keep the guide from dropping down in the event the hanging lines would break.

Q. What did you put these guides out primarily for on these spoolers? What was their object?

A. Their object was to stabilize the line and keep it from whipping.

Q. And did you send any instructions out with the earlier ones as to how they should be installed?

A. I don't believe we did; I don't think we did.

Q. When did you change the eye and put it at the top?

A. About 1937; I think in the middle of the next year.

Q. Of July?

A. Yes, sir; along in the summertime.

Q. And, when you put the eyes at the top, were they cast?

A. They were castings; yes, sir.

Q. You made some castings, then?

A. Yes, sir.

Q. And where were the eyes placed in those castings? [370]

A. They were placed at the top and one of them half way to the middle and one at the middle.

Q. In other words, you had a middle eye and a top eye and then, half way in between the middle and the top, you had another eye?

A. Yes, sir.

(Testimony of J. C. Ballagh.)

Q. And was there a hanging line attached to the top eye? A. Yes, sir.

Q. And what was attached to the second eye, in between the top and the middle? A. Nothing.

Q. How about the eye that was actually in the middle?

A. There was one attached to that, also.

Q. Had you been in the field, Mr. Ballagh, frequently during 1936 and 1937?

A. Yes, sir; I was there a great deal of the time.

Q. Had you made any trips to the Mid-Continent? A. Yes, sir.

Q. Whereabouts in the Mid-Continent?

A. Oh, it was in West Texas, Oklahoma, South Texas and Louisiana and Arkansas and wherever they drilled oil wells in the Mid-Continent area.

Q. And you had experience while you were in the field with the spoolers, did you, that were [371] out? A. Yes, sir.

Q. From this experience, did you make any change in the position of the eye on the spooler?

A. Yes, sir; we moved the eye to the top and, when we came out, we used castings.

Q. Why did you do that?

A. Mainly for a safety reason. We found in operation that, with the single eye with one rope attached to it, there was too much movement up and down when the lines were started out as brand new, and the line would go quite a number of feet up and then it would come down, when the guide was first put and the spooler was being broken in.



(Testimony of J. C. Ballagh.)

Q. What was the clearance between the wire guide and the rubber, the hole in your rubber?

A. There was an inch and an eighth hole in the rubber and, when there was an inch line used, there was about a sixteenth of an inch on each side, provided it wasn't squeezed down too tightly when they put on the two side ears; and on the inch and eighth line there was no clearance at all.

Q. When you put that on the line, what happened?

A. There was so much friction that, when the line would run up, the guide would run up with it. It was also going very high either by the hanging line or the safety line, and then, when it would go on down, it would be carried down until the wear had taken place and had worn the guide [372] enough so that the guide would not travel up and down very much.

The Court: We will take a recess at this time.

(Short recess.)

Q. (By Mr. Caughey): I don't know, Mr. Ballagh, whether you had finished your answer or not. I think we had better have the question and answer read to be sure.

(Record read by reporter.)

A. I think that should be reversed there, where the guide went up on the wire.

Q. When you were out in the field, you saw some of these spoolers, did you, that were up?

A. Yes, sir.

(Testimony of J. C. Ballagh.)

Q. And did you talk to any of the operators?

A. Yes, sir.

Q. What did they tell you as to their operations?

A. They said they were very satisfactory for stopping the whip.

Q. Did they say anything as to how they were hung at all?

A. They said in many cases they were breaking the eye off—it was only a single eye—and they are not shipping them around the fields or sometimes, even when they were putting them up in the derrick, they would be breaking this eye. So they were putting on another eye. And I heard many [373] suggestions that we hang it from the top and put on two lines instead of the one that we had been using, because it had such a travel that the counterweights couldn't travel, within the limits that the counterweights should travel, without hitting the floor of the derrick.

Q. And, when you say two eyes, where would one of the eyes be?

A. They wanted to have another eye put up near the top. They said it hung better when hanging from the top.

Q. Was that the reason why you changed and made the castings with the eyes at the top?

A. That wasn't the primary reason. We made the castings because they were cheaper to manufacture and made a much better looking item.

Q. But you put the eyes at the top when you made the castings?

(Testimony of J. C. Ballagh.)

A. Yes, sir. We tried to incorporate in our devices various suggestions that were made in the field, that would make for better operation, and that was one of them.

Q. There have been some advertisements introduced here by the plaintiffs and you have identified some, I believe. I show you an advertisement which is Plaintiff's Exhibit 10-I, dated December 30, 1937. Does that show one of your cast spoolers?

A. Yes, sir. [374]

Q. Who gives the instructions or orders for making changes in the equipment, or who did at that time, at Patterson-Ballagh, such as making castings? Who gave those instructions?

A. It was as a result of a conference of myself and the factory, the factory superintendent, as to design and material, and no changes were made without my sanction.

Q. Without your approval? A. No, sir.

Q. Were you, at the date of this advertisement, making line spoolers such as shown in the advertisement? A. Yes, sir.

Q. And it is your testimony that it was some time in the summer of 1937, you began making line spoolers with the eyes at the top?

A. Yes, sir. That was our commercial adoption of the cast steel, in which those that left the factory had the eye at the top.

Q. And since that time you have continued to do so? A. Yes, sir.

(Testimony of J. C. Ballagh.)

Q. Had you ever heard of Mr. Moss or the Moss spooler at that time? A. No, sir.

Q. How much later was it before you ever heard of them?

A. Oh, it was several years later; I think it was [375] probably around 1940. If I remember rightly, somebody told me that they had seen another guide which wasn't ours, that is, one that wasn't made by Patterson-Ballagh. I think it was about 1940, if I am not mistaken. It was a number of years after we had started.

Q. But you are sure that at the time you made this change it wasn't any suggestion made by Mr. Moss or anything that he did? A. No, sir.

Q. As you say, it was by people in the field and also in the Mid-Continent?

A. Both in the Mid-Continent and in California.

Q. And, you, of course, had seen the spooler hang in the Reserve Oil Well, in 1936?

A. Yes, sir; and it was hung at the top.

Q. Did you file a patent application on the first line spooler you made? A. Yes, sir.

Q. I show you a document entitled "U. S. Patent Office," and ask you if you can recognize that? I think Mr. Westall will stipulate that this is a receipt of the Patent Office.

Mr. Joseph F. Westall: That is correct but I would like to put the date down, and so forth.

Mr. Caughey: Yes. [376]

A. Yes, sir.



(Testimony of J. C. Ballagh.)

Q. And that shows the filing date of December 8, 1936, does it not?      A. Yes, sir.

Mr. Joseph F. Westall: That was an application that was abandoned, was it not?

Mr. Caughey: That is right. I have the files, as a matter of fact, with identical drawings.

Mr. Joseph F. Westall: May I see that just a moment? You don't need to put it in evidence. I will stipulate that the drawings of this application are identical with the drawings of the Reed application as later filed.

Mr. Caughey: That is correct.

Mr. Joseph F. Westall: And we stipulate this was an abandoned application.

Mr. Caughey: That is correct. And I also can prove by evidence of my office, Mr. Westall, that Mr. Ballagh contacted us first relative to filing this application on November 14, 1936. We have our docket book.

Mr. Joseph F. Westall: Yes; and perhaps you need not put that in evidence because we can stipulate that this filing receipt of applicant, James C. Ballagh, for a line spooler, the \$30 filing fee and the specification, drawing and oath, were received by the Patent Office and it was filed December 8, 1936. [377]

Mr. Caughey: Yes; serial No. 114,777. And will you also stipulate, to avoid bringing my records up, that Mr. Ballagh contacted us, with reference to filing it, on November 14, 1936?

Mr. Joseph F. Westall: I will stipulate to it be-



(Testimony of J. C. Ballagh.)

cause it is reasonable for an attorney to have some time to draw up an application.

The Court: Do I understand that the application that was filed by Mr. Reed, with the drawing thereon, is a duplicate of the application that was filed by Mr. Ballagh?

Mr. Joseph F. Westall: An exact duplicate.

The Court: The entire set-up?

Mr. Caughey: That is correct.

Mr. Joseph F. Westall: Hanging in the middle.

The Court: And the application as well?

Mr. Caughey: The application as well, as a matter of fact.

Mr. Joseph F. Westall: It is not material whether it is or not.

Mr. Caughey: It is, as a matter of fact.

Q. Did you know at the time that you filed this application that Mr. Reed had made a spooler such as he described? A. No, sir.

Q. And did he come down to see you about it?

A. Yes, sir. [378]

Q. And convinced you that he was the first inventor? A. Yes, sir.

Q. As a matter of fact, we had a conference, in my office, about it, didn't we? A. Yes.

Q. And he told us what he had done?

A. Yes, sir.

Q. And then you made a deal with him, is that correct? A. Yes, sir.

Q. I show you an agreement, dated May 10, 1937—

(Testimony of J. C. Ballagh.)

Mr. Joseph F. Westall: Of course, you can put it in evidence, but——

Mr. Caughey: I don't want to put it in. You have already agreed that he was operating under the license. So it isn't necessary to put it in as far as I am concerned. It is just to fix the date of the agreement as May 10, 1937.

Mr. Joseph F. Westall: Yes.

Q. (By Mr. Caughey): Mr. Ballagh, does it make any difference insofar as the spooling of the line is concerned whether there is any line at the top or line at the bottom, just so that there is sufficient with counterweights to hold it in place?

A. That is correct; provided there are ample counterweights to counterbalance the weight of the guide itself; provided the wear is taking place enough so that the line does [379] not stick in the guide.

Q. In other words, so that it is burned in so that there is sufficient clearance? A. Yes, sir.

Q. Then, actually, you wouldn't need any line so far as the spooling is concerned, either an upper line or a lower line?

A. Yes, sir. I have seen quite a number of them operating without any hanging line or safety line.

Q. You have? A. Yes, sir.

Q. In the field, do you mean?

A. Yes, sir; I have seen them in the field.

Q. Are any of the old or first spoolers made still in the field?

A. There are a few of them still in service and,

(Testimony of J. C. Ballagh.)

as long as they were operating satisfactorily, the operators just haven't changed to the new style.

Q. Do you pick them up once in a while?

A. Whenever we see one, we have a trade-in price we have, and we try to sell them the new design.

Q. If there wasn't any hanging line at the top or any hanging line at the bottom and, particularly, the hanging line at the top, there would be a certain sag, would there not, if those lines were not used? [380]

A. Yes; regardless of the weight, there would be a certain amount of sag.

Q. And regardless of the counterweight?

A. Regardless of the counterweight.

Q. But that wouldn't affect the spooling——

A. No; the spooling is caused by a large and sufficient weight to stop the whip.

Q. How are you at present hanging the spoolers?

A. We recommend they be hung from the top.

Q. In what manner?

A. In the very latest design we have, we hang them with two hanging lines from the two sides.

Q. Will you explain that a little more clearly? I don't believe the court or I, either one, understand it.

A. There is one line on each side, that goes up——

Q. With reference to the model here, will you explain it?

(Testimony of J. C. Ballagh.)

A. —at the upperside, in a line that is parallel with the side of the derrick.

Q. One on each side?

A. One on each side. Over that side there would be an ear and from each ear there would be a line that goes upward to a common meeting place.

Q. As I understand your testimony, close to the upper part of the spooler? [381] A. Yes, sir.

Q. There is an eye on each side?

A. Yes, sir.

Q. And you have a line going up? A. Yes.

Q. And then up here somewhere the line meets?

A. Yes, sir.

Q. And then you have another line——

A. Another line goes into the derrick itself.

The Court: Is there a loop?

Mr. Caughey: This is a loop, just the same as the loop that Mr. Reed testified to.

Q. And how long have you been using that loop, Mr. Ballagh?

A. I think off and on for about a couple of years; not entirely but on a number of them until we were sure that that was the best method of hanging.

Q. It was a better method of hanging than hanging the line at the top? A. Yes, sir.

Q. You found that out? A. Yes, sir.

Q. What sizes of spooler do you and, when I say “you,” I mean the Patterson-Ballagh Corporation or the Patterson-Ballagh Division of Byron

(Testimony of J. C. Ballagh.)

Jackson,—which ones do you [382] manufacture?

A. They are in three sizes, the two-section with two refills, one a four-section with four refills, and one a six-section with six refills, each refill being eight inches long.

Q. And those refills are made of rubber?

A. Yes, sir.

Q. That would make an overall length of your two-section spooler of what length?

A. Sixteen inches.

Q. And of your four?

A. Thirty-two inches.

Q. And of your six?

A. Forty-eight inches.

Q. And were you selling them in that length in 1936?

A. We were selling the four-section and the two-section.

Q. Is the rubber longer than the housing in these particular spoolers?

A. Yes, sir; there are approximately two inches of overhang of rubber from each end of the guide.

Q. On one each of the styles?

A. On each one of the three styles.

Q. So you would have to deduct about four inches to get the overall length of the shell, is that right? [383]

A. Yes, sir; of the housing.

The Court: I didn't quite understand. Did you say you were making two sizes?

Mr. Caughey: Two sizes in 1936, and three sizes at the present time.



(Testimony of J. C. Ballagh.)

A. That is, of the rubber.

Q. And nothing to do with the casing?

Mr. Caughey: No. Sections refer to the rubber.

Q. When did you start making the three-section, if you recall, Mr. Ballagh?

A. We didn't make a three-section.

Q. I mean a six-section.

A. I think that was made in 1937, in the latter part of 1937. I would have to refresh my memory on it.

Q. You don't recall making any of those before you began casting?

A. No, sir.

Q. What is the outside diameter of the rubber inserts that you use?

A. Five inches.

Q. And what is the diameter of the shell?

A. The shell is five inches inside diameter.

Q. How thick is the shell?

A. On the first ones that were made, it was just the thickness of the five-inch pipe. It was right about a quarter [384] of an inch.

Q. And what are the present ones?

A. The present ones don't have a uniform thickness because they are curled to make them weigh less, and with a rib in the center. So there is not a uniform cross-section.

Q. And when you began placing the eye at the top, where was that eye placed with respect—where was it placed on the shell?

A. It was placed in the middle of the half on the—the inside half. The shells were made in two halves, one for the front and one for the back, and

(Testimony of J. C. Ballagh.)

by the "back" we mean the one that was closest to the derrick, and it was on the back half we had the three eyes.

Q. And at the top?

A. At the top and at the middle and half way up to the top, when the hanging line was attached.

Q. How far would you say that hanging line was from the rope itself that went through the center of the insert?

A. About four inches from the center of the rope, four to four and a half inches. I would have to consult the drawing.

Q. Four to four and a half inches?

A. I would guess that to be about what it would be. It might be six inches.

Q. And that was the same for all sizes? [385]

A. Yes.

Q. The Patterson-Ballagh Corporation didn't actually install any of these in a well, did they, Mr. Ballagh?

A. No, sir. We have sold them and the customer's crew puts them up.

Q. You sold the guide and the counterweights?

A. Well, at the very first, we didn't sell the counterweights or the hayfork pulleys.

Q. Those hayfork pulleys are the pulleys over which the rope goes? A. On the side; yes, sir.

Q. You didn't sell those at first but you do at the present time? A. No, sir; but we do now.

Q. Did you contact Mr. Moss or did he contact you in connection with this litigation?

(Testimony of J. C. Ballagh.)

A. Yes, sir.

Q. Do you recall the date?

A. No; I don't. I can't say without refreshing my memory in some manner.

Q. I show you a letter that has been introduced in evidence and which it was stipulated that you wrote. Will you please read that?

A. "Mr. P. M. Moss, 1466 Lewis Avenue, Long Beach, California. Dear Mr. Moss: I have talked with my [386] associates relative to the purchase of your patent. Due to the war situation and its effect upon the rubber business and the oil business, we have decided against making any commitments of this kind at the present time. When the war situation clears up, we might be in a better position to talk with you about this. Yours very truly, J. C. Ballagh, Secretary." Dated at Los Angeles, March 24, 1942.

Q. Did you write it?      A. Yes, sir.

Q. Did Mr. Moss contact you after that date?

A. Yes, sir.

Q. How soon after that date?

A. Oh, I can't recall. I think it was some little time after that. I can't recall the date without some reference to correspondence at that time.

Q. Was it in connection with a possible settlement of the case?      A. Yes, sir.

Q. And what did you tell him?

A. I told him that I saw no reason why we would violate a patent and I told him, "If you will get the file wrapper on your patent and let us have

(Testimony of J. C. Ballagh.)

the file wrapper and let our attorney study it," I would either make a proposition to buy the patent or take a license out under it or suspend operations, depending upon the attorney's advice. [387]

Q. Are you sure that wasn't before the date of this letter?

A. I think it was after that some considerable time.

Q. In other words, if he could convince you that the patent was valid, and if your attorneys advised you that you were infringing, that, if you could make a satisfactory deal, you would?

A. Yes, sir.

Q. And that was the end of it?

A. That is the last I saw of him until we went into this hearing.

Q. And you secured the advice of your attorneys that you shouldn't make a deal?

A. Yes, sir; I immediately contacted your firm.

Mr. Caughey: That is all.

### Cross-Examination

By Mr. Joseph F. Westall:

Q. Mr. Ballagh, you have stated that you thought it was some time during the summer of the year 1937, that you first put the eye at the top. I do not believe you gave the date very accurately. Did you think it was July and August or August?

A. I think it was in the summer. I am quite sure it was during the summer but I haven't—

(Testimony of J. C. Ballagh.)

Q. You are relying upon your unaided memory? [388]      A. I am as to a date.

Q. Maybe this might refresh your recollection. I show you Plaintiffs' Exhibit No. 25, an advertisement of the Patterson-Ballagh Corporation, page 71 of the Oil and Gas Journal, dated October 21st, and ask you if that refreshes your recollection in any way.

A. Yes, sir; I remember the advertisement extremely well.

Q. You do?      A. Yes, sir.

Q. So that at that late date you were still advertising hanging from the middle, were you not?

A. This cut is upside down.

Q. That is what Mrs. Moss testified.

Mr. Caughey: There is no question about that.

Q. (By Mr. Joseph F. Westall): There is no question about it being upside down because you wouldn't have a hanging line otherwise. That was when you first started advertising the putting of the line, the hanging line, at the top, wasn't it?

A. I don't remember the date.

Q. I think the record will show that was when you first started.

The Court: What is the date of that ad?

Mr. Joseph F. Westall: It is October 21, 1937. That [389] was the first notice that Mr. Moss had that they were infringing his patent, not very long before its issuance.

Mr. Caughey: You say not long before its issuance?



(Testimony of J. C. Ballagh.)

Mr. Joseph F. Westall: I mean the filing of his application, which was January 21, 1938, which is a few months before.

Q. And this ad that I now show you of a page of the Oil and Gas Journal, page 86, dated December 30, 1937, is the next ad you got out showing the hanging from the top, is it not?

A. I don't know that it is the next ad but that shows it hanging from the top.

Q. Yes. Well, that is the next ad, as we have shown.

The Court: Twenty-five is hanging from the top also?

Mr. Joseph F. Westall: Twenty-five is hanging from the top also.

The Court: Was the one dated October 21, 1937, hung from the top?

Mr. Joseph F. Westall: No. Well, yes. The one of October 21st was hung from the top. That is the upside down one.

The Court: That was the first one?

Mr. Joseph F. Westall: Yes; that was the first one.

The Court: That shows the hanging from the top?

Mr. Joseph F. Westall: Yes. [390]

The Court: And the second one is December 30, 1937?

Mr. Joseph F. Westall: Yes, sir; when they continued hanging from the top.

(Testimony of J. C. Ballagh.)

The Court: What is the number of that exhibit?

The Clerk: The first one is 25 and the second one is 26.

Q. (By Mr. Joseph F. Westall): The contract that counsel referred to shows 10 per cent royalty on rubbers. Could you say approximately how much royalty that amounts to per month on an average? A. I have no way——

Mr. Caughey: I object to that. That is immaterial. I don't see that it has any materiality at all in this case.

The Court: That is for later consideration in the event——

Mr. Caughey: Yes.

Mr. Joseph F. Westall: Yes.

Q. Can you state that?

Mr. Caughey: I renew my objection.

A. I have no records to substantiate that.

Q. (By Mr. Joseph F. Westall): Do you know——

The Court: Just a moment; there has been an objection. That would be a matter of computation, would it not, in the event you were successful in this matter?

Mr. Joseph F. Westall: Yes. [391]

The Court: At the present time I don't think it is material. Is it?

Mr. Joseph F. Westall: It may not be of great materiality but I wanted to get it in the record.

Q. You said you contacted Mr. Moss some time

(Testimony of J. C. Ballagh.)

after the date of the letter which you read from the stand. What is the date of that letter?

Mr. Caughey: I don't know whether he said he contacted him or Mr. Moss contacted Mr. Ballagh. I wasn't sure about that, if you want to bring it out.

The Court: Well, they contacted each other.

Mr. Caughey: Yes; I think Mr. Moss came down there.

Q. (By Mr. Joseph F. Westall): The letter is dated March 24, 1942. And you say that either he contacted you or you contacted him. Did he call at the office? A. Yes, sir.

Q. You had a talk with him? A. Yes, sir.

Q. And who was present at that conversation?

A. I think some attorney that was from Long Beach.

Q. Possibly his attorney?

A. I think it was; I wouldn't say.

Q. Could you say whether it was a month or a year or what? Could you give any approximation of that time that you contacted him? [392]

A. Oh, I think it would be at least a year. It might have been more than that. I know it was a considerable time. I can't recall the date.

Q. It might have been somewhere in the middle of 1943, for all you know?

A. It might have. I can't recall the date.

Mr. Joseph F. Westall: I believe that is all, Mr. Ballagh.

(Testimony of J. C. Ballagh.)

Redirect Examination

By Mr. Caughey:

Q. Mr. Ballagh, relative to the advertisements that were shown to you, it is a fact, isn't it, that the copies of those advertisements have to be sent in some time prior to the date of issue?

A. Yes; it takes a number of months to get the cuts made and get the copy approved.

Q. So that, if you had something appearing in the Oil and Gas Journal in October, it would have had to have been sent in some time before?

A. It may have been prepared in July, or June even.

Q. And that was prepared by your advertising agents?

A. Yes, sir.

Q. You supplied them with that material?

A. Yes.

Mr. Caughey: That is all. [393]

Mr. Joseph F. Westall: That is all.

The Court: As a matter of general information, were you able to manufacture all of these implements during the war?

A. Yes, sir; but only in a very limited quantity because we were allocated in the amount of steel we could get and then we were allocated in the amount of rubber, and, for a number of years, we were cut off entirely on the rubber and we went to a synthetic rubber. But that was very unsatisfactory for that purpose. We made them all during the war,

(Testimony of J. C. Ballagh.)

though, because they were so valuable to the operators who wanted them.

Mr. Caughey: That is all, Mr. Ballagh. Mr. Hambly.

ALLEN E. HAMBLY

a witness for the defendants, being first duly sworn, testified as follows:

The Clerk: Will you state your name, please?

A. Allen E. Hambly.

Direct Examination

By Mr. Caughey:

Q. Where do you reside, Mr. Hambly?

A. 2544 Cudahy Street, Huntington Park, California.

Q. What is your occupation?

A. I am a patent attorney for the Byron Jackson Company.

Q. How long have you been employed by that concern? [394]

A. Since October, 1937.

Q. Have you read the Moss Patent in Suit?

A. Yes; I have.

Q. And you are familiar with the drawings shown therein?

A. Yes.

Q. Have you looked for the dimensions of drillings rigs of 122 feet, for example?

A. Yes.

Q. And what did you find those dimensions to be?

Mr. Joseph F. Westall: We object to that as, obviously, hearsay. He went out in the oil fields



(Testimony of Allen E. Hambly.)

and, by hearsay, he thinks he knows. He is not qualified to state the height of those rigs and, furthermore, it is totally irrelevant in the issues of the case.

Mr. Caughey: I will show it isn't.

Mr. Joseph F. Westall: I think the witnesses who have been on the stand have repeatedly testified, the ones that were experienced, as to the heights of these rigs, and it is cumulative also.

Mr. Caughey: I will admit there is testimony in that a 122-foot rig has a base of 24 feet square and a height across the top of 5 feet 6.

The Court: There is evidence to that effect, I think.

Mr. Joseph F. Westall: Yes; there is evidence to that effect. [395]

Q. (By Mr. Caughey): Have you made any drawings of a rig based on those figures, Mr. Hambly?

A. I had a drawing made under my direction.

Q. Under your supervision? A. Yes, sir.

Q. And for the purpose of showing what?

A. For the purpose of showing, first, the inclination of the side of the derrick with respect to the vertical and showing the inclination of the drilling line which extends from the crown block down to the draw works drum.

Q. Is this the drawing that you referred to?

A. Yes; that is the one.

Q. With reference to that drawing, Figure 1,

(Testimony of Allen E. Hambly.)

you show the height of the derrick to be 122 feet, is that correct, scaled down?

A. That is the height on the slant of the derrick itself. It is not the vertical height. Those derricks are measured according to A.P.I. specifications, which are measured on the incline because that is the easiest way to measure them, and these derricks or the dimensions are specified by the American Petroleum Institute specifications, and a 122-foot derrick is 122 feet high on a slant and has a 24-foot square base inside measurement and a five-foot six-inch what they call a water table opening, which is the inside measurement at the top of the derrick, and five-feet six on the side. [396]

Mr. Joseph F. Westall: We move to strike out the answer as, obviously, hearsay and the witness is not qualified to state, not being a skilled man and, consequently, his statements are pure hearsay.

The Court: I don't think you have qualified him. All we have so far is he is a patent attorney for Byron Jackson but as to his experience in this particular endeavor I haven't heard any testimony along that line.

Mr. Caughey: As a matter of fact, we don't need it, your Honor. All I want to have the witness describe is what is on the drawing, which will be sufficient as far as I am concerned.

Q. You say that Figure 1 of the drawing shows a derrick which is 122 feet in height, measured along the outside of the derrick?

A. That is right.

(Testimony of Allen E. Hambly.)

Q. And that is scaled down to what? Is there a scale there?

A. A scale of a quarter inch equals one foot.

Q. You show a dotted line coming down from the top. Will you please state what that dotted line is represented to be?

A. That dotted line, in red ink, is designated, by reference numeral "2," as a drilling line.

Q. And that goes down to a drum, does it, on the [397] derrick floor? A. That is right.

Q. Which is shown as a drum, designated as a drum, by reference numeral "3"? A. Yes.

Q. You also represented a round circle at the top of the derrick. What is that represented to be?

A. That represents a shiv on the crown block, over which the line travels after reaching the top of the derrick from the drum.

Q. And that line comes off from the crown block, according to the drawing, how far from the side of the derrick?

Mr. Joseph F. Westall: We object to that and also to those dimensions as totally irrelevant to the case. This patent does not cover dimensions. No patent covers dimensions. It is entirely outside any of the issues of the case and I can't see any relevancy to it whatsoever.

The Court: Will you make a statement into the record of what your offer of proof is?

Mr. Caughey: Yes. My offer of proof is I want to show the angle of inclination of the drilling line from the vertical as it is in the well that has been

(Testimony of Allen E. Hambly.)

described, a 122-foot derrick. I will also show, by other drawings on the sheet, that, if a spooler is hung perpendicularly, it would therefore only be four degrees off of the line, off of the vertical. So, [398] therefore, there could only be four degrees difference if the spooler hung vertically between that and the line which would pass through it, even if it was free to hang normally. And then we also want to show, by reference to the drawing and in accordance with the measurements given by Mr. Ballagh in his testimony, that the angle at which the Patterson-Ballagh line actually hangs is more of an angle than it would be if it was hanging at the vertical, and I think that is very pertinent testimony in view of the fact we have in evidence here photographs and testimony showing that there are many spoolers that have hung from the top straight down, and I think that is very pertinent evidence in this case.

Mr. Joseph F. Westall: The Moss patent doesn't show that. We are suing on the Moss patent, and all data that counsel has mentioned and everything in his statement I say is totally irrelevant to the claims in suit.

Mr. Caughey: The Moss patent says you have got to hang so that the spooler will be in absolute accord with the drilling line through it.

The Court: Will you refer to the patent?

Mr. Caughey: Yes, sir. Referring to Claim 2 of the Moss patent, which is the claim in issue, it says, "A draw works drum line controller body



(Testimony of Allen E. Hambly.)

having an elongate, line receiving bore, a pair of opposite lateral control devices each including parts diverging toward the opposite ends of and [399] connected to said body to stabilize it against vibration on its minor axis in the plane of said devices, and a suspension means connected to said body at a point eccentric to the major axis and adjacent to one end of the body to support the body in normal position with the bore substantially parallel and contiguous to the line for reception thereof substantially without load of the body on the line when this is in a vertical plane transverse to the axis of the draw works drum.”

In other words, the claim says that the line should be so hung that this spooler will lie along the wire rope that runs through it so that it will take an angle of inclination so that it will run along that line.

The Court: “Substantially,” he says. And, of course, no one can get it exact, but they will, naturally, try, in hanging it, to get it as exactly as they can.

Mr. Caughey: Mr. Moss stated in his deposition that it was two or three degrees off.

Mr. Joseph F. Westall: That is all, “substantially.” You can’t get it exactly right.

Mr. Caughey: There is no definition of “substantially” in the patent.

Mr. Joseph F. Westall: That doesn’t make any difference. It is a word of common meaning. It is obvious they try to get it as close to that as possible.



(Testimony of Allen E. Hambly.)

But that is a matter [400] of no importance at all and this exhibit and this testimony is not helping to solve it.

The Court: What do you claim is the significance of this particular testimony?

Mr. Caughey: I claim the significance of it is to show that the——

The Court: Remember, I am a layman now, and tell me in plain language.

Mr. Caughey: I will try and do the best I can. I am trying to show that, when you have a drilling line, in ordinary practice, running from the top of the crown block and winding around a drum on the floor, the angle of inclination, the included angle from the vertical of that line, is about four degrees. That is all it is off center. In other words, if you let a line hang plumb down to the floor, a straight line, and you take this other line that goes around the drum and you measure the included angle in between the two, it will be four degrees. That is all it is.

The Court: Then what?

Mr. Caughey: Then, I want to show that, if you hang a spooler, just let it hang freely, on the wire line guide, hang it so that it would tend to hang perpendicularly from the top——

The Court: When you say “freely,” how do you mean?

Mr. Caughey: Just to let it hang straight down. That, [401] if you threaded the wire line through that, the wire line would only be four degrees off

(Testimony of Allen E. Hambly.)

of it; in other words, it would be the same included angle; because the spooler would represent the same rope that you dropped down straight from the crown block to the center of the floor, and the spooler dropping straight down could only be just four degrees off, as it would be if you dropped a straight line down from the crown block to the center of the floor.

Mr. Joseph F. Westall: Let me ask you this. Are you criticizing the showing or the disclosure of the Moss patent or the Reed patent? Doesn't what you say apply to the Reed patent disclosure?

Mr. Caughey: I have got nothing to do with the Reed patent disclosure. That isn't in issue.

Mr. Joseph F. Westall: Oh, yes; it is. You are operating under the Reed patent until you change your hanging line.

Mr. Caughey: You are charging us with infringement. Therefore, when you use, as the Reserve Oil Company did in that photograph,—when they hold a hanging line at the top and let it drop straight down there substantially contiguous to the line, that goes through it just the same as it says in that claim. They are only four degrees off. Mr. Moss in his deposition said they had varied two or three degrees. The other drawings on here give the dimension of the Patterson-Ballagh spooler and show where it is attached to the eye and [402] shows where it is attached up on the girt, to show the included angle of inclination that it would have, in other words, the same included angle I am talk-

(Testimony of Allen E. Hambly.)

ing about. And I think I can illustrate that better by just taking a pencil——

Mr. Joseph F. Westall: I might say this if you will permit me. You will remember that Mr. Moss said that he didn't measure it at all but he said that whatever the angle was was immaterial; that he didn't measure it.

Mr. Caughey: Oh, no. I asked him whether that angle was important and he said it was very important.

Mr. Joseph F. Westall: It is very important but whether it is two, three, four or five degrees is not important.

Mr. Caughey: Would you say ten degrees is "substantial"?

Mr. Joseph F. Westall: The angle is important but not the number of degrees.

Mr. Caughey: I wanted to show what was wrong with this patent when I read that case at the start; that this patent has to be precise as to the language when you are talking about where the invention resides. That is another reason why I am putting this particular document in. When I catch the pen like this and catch it like that and let it hang free, it gives a certain inclination. If I held it up that way, it would hang straight down. If I held it on that side, it would incline the other way. The further out I hold [403] it here, the more angle it would take. Now, I am showing by this particular document just exactly the angle that the Patterson-Ballagh would take if hung in that manner, in the

(Testimony of Allen E. Hambly.)

manner that it is supposed to be hung by the instructions given.

The Court: Do you mean from the center?

Mr. Caughey: Yes, sir. And that is very important in this case. This is from the top eye. There is no question of infringement from the center eye.

Mr. Joseph F. Westall: Oh, no; you can use the center eye.

Mr. Caughey: We are showing, by hanging at the top eye, the angle of inclination that spooler would take. Of course, if the line is through it, it has to take the same angle along the lines, but the reason is to show the degree of pressure there would be on there, the angle it would be trying to assume all the time, because any freely hanging body tends to assume a vertical position but, if you hang it at one side, it tends to assume a different position from the vertical. And we are maintaining that the way that Patterson-Ballagh hang this is not so it is contiguous to this line because we will show it is 10 degrees off in some instances. I think that is very important evidence. Mr. Westall wouldn't go so far as to say that 10 degrees was substantial or not. I say that is very important evidence, in [404] fact, I think some of the most important in this case.

Mr. Joseph F. Westall: I don't think it is at all material. Patterson-Ballagh don't put these things up. They give instructions as to how to put them up. And how will they be put up if the operator



(Testimony of Allen E. Hambly.)

or user uses common sense? They will put it up as near as they can to make that line straight so there won't be any wear on the bearings.

Mr. Caughey: Are you saying we sell them and the operator puts them up wrong?

Mr. Joseph F. Westall: You give your instructions, by showing them, as to how they are to be hung.

Mr. Caughey: Are you saying they don't follow the instructions given?

Mr. Joseph F. Westall: They hang them up this way and it depends on whether they hang it from one girt or from the other and they don't figure just how many degrees this is or that.

Mr. Caughey: Maybe they don't but we give certain instructions. I think the argument has been enough to establish and to show you it is quite important on the issues here, may your Honor please. We haven't argued this case yet or briefed it but I will assure you this evidence is very important not only on the question of infringement but also on the question of validity.

The Court: I would like to know a little more about that [405] situation before I rule on this particular evidence. This is the first time you have presented this particular phase of this case.

Mr. Caughey: Yes. I mean I didn't assume we were going to argue it now.

The Court: No. But I don't think I get the full significance of this particular phase of the controversy.



(Testimony of Allen E. Hambly.)

Mr. Joseph F. Westall: I don't, either, your Honor.

The Court: And I would like to know more about it. I would like to know just what relative connection it has with what is the real issue in this case.

Mr. Caughey: Mr. Westall has stated that the invention in this Moss patent and the contribution to the art resided in putting the hanging line at the top so that the spooler would hang along in the same angle of inclination as the wire line, so that there wouldn't be any friction on the line.

The Court: Is that your contention, Mr. Westall?

Mr. Joseph F. Westall: My contention is——

The Court: You are quoting now from the specification, are you?

Mr. Caughey: No; I am quoting just precisely what Mr. Westall said in his opening statement.

Mr. Joseph F. Westall: If I made any statement "exactly," of course, I meant that the claim was infringed by "substantially" being so. Nobody could say that it was exactly in [406] line and the claim doesn't so say.

The Court: What does the claim say? I mean how accurate is your statement as compared to what the claim is?

Mr. Caughey: There is nothing in the patent that shows how many degrees it can be off and how substantial it is.

Mr. Joseph F. Westall: He wasn't required by

(Testimony of Allen E. Hambly.)

the Patent Office to limit it and, furthermore, counsel tried to claim the same thing for Mr. Reed and copied one of our claims in the interference and used the same language. He used the claims of Moss and tried to get an interference in the case.

The Court: Let's take one step further. Just consider that I am inexperienced in this art here. Will you carry it along and show me the significance of your contention, so I will be fully advised?

Mr. Caughey: We will throw the word "substantial" in as the claim. With that word in, will you agree with my statement?

Mr. Joseph F. Westall: Yes. I want to stick to the claim.

Mr. Caughey: There is no definition of "substantial" in the claim. So we will throw that in. Now, we have in evidence in this case testimony to the effect that spoolers which meet every element of this claim, every element with the possible exception of that hung "substantially"—they [407] meet every other element of the claim. I don't think Mr. Westall can deny that fact.

Mr. Joseph F. Westall: They meet exactly all of the elements of the claim, including the "substantial" also.

Mr. Caughey: I say I don't believe you can deny that, with the exception of hanging the line at the top, the spoolers that were put out by Patterson-Ballagh and which have been described in evidence here meet all of the other elements of the claim.

Mr. Joseph F. Westall: They meet all of the

(Testimony of Allen E. Hambly.)

elements of the claim, yes, without any exception.

Mr. Caughey: That is fine; I agree with you, too. I agree with you perfectly.

Mr. Joseph F. Westall: Then that settles the question of infringement right now.

Mr. Caughey: No, because the ones I am referring to are the ones we put out as prior art. We put in evidence in this case a photograph, identified by the witness, that was hung in the Reserve Company well, and I think your Honor will remember the photograph, a spooler which is elongated, which has side bridles, which has weights on it to hold it up, and which has rubber bearings in it, which is a Patterson-Ballagh spooler, and it has every one of the elements of claim 2, as I say, with the possible exception of the controverted element, the question of how you hang the line. In the [408] Moss patent he shows the line hung not at the top of the center but he shows it at the side, from a ring, which would, naturally, cause it to assume a position off of the vertical.

The Court: You have already illustrated that with a pen.

Mr. Caughey: That is right, but, when you hang it from two straight lines from the top, it would, naturally, attempt to assume a vertical position. Isn't that correct?

Mr. Joseph F. Westall: Now,—

Mr. Caughey: Isn't that correct?

Mr. Joseph F. Westall: It may be correct that way.

(Testimony of Allen E. Hambly.)

Mr. Caughey: Now, if you please, the result is this is too late and not prior. Although you have the burden of proof, you haven't completely shown that structure. So we have the structure here which is hanging from the top because you will note that there are no lines attached to these eyes in the middle, no lines at all. It is hanging only from the top and suspended solely from the top by those two lines going up, from the top, which would cause the spooler to hang vertically. Now, if a line is threaded through that which is off of the vertical, there would be some friction, without question. The line which is threaded through it, which we will show and which the ordinary derrick has, approximately that derrick, is about four degrees off of the vertical. So that the included angle that you would have between what this [409] spooler would be if it was hung straight, vertical, and what it is when it is hung along the wire line, is a four degree included angle. That is all it could be. Now, the question is whether or not it would be invention for Mr. Moss to hang it at the side and get a two or three degree angle when you can hang it at the top to get a four degree angle. And, furthermore, Mr. Westall won't say what "substantial" means. He says it might be up to 10 degrees. So I say it is very pertinent, upon the question of whether there is any invention involved here, to show your Honor clearly by this diagram and by this representation just what the angles are here and what we are talking about.



(Testimony of Allen E. Hambly.)

Furthermore, upon the question of infringement, it is important to show what the angle is that Patterson-Ballagh spoolers actually hung, and we have introduced or presented this chart for the purpose of showing what that angle will be for various sized Patterson-Ballagh spoolers. I think we have them all represented, or two sizes represented. We have got the small, the four-section and the six-section, showing the angularity between. In other words, if you take a Patterson-Ballagh spooler and attach a rope to that eye there and run it up to the derrick and tie it 30 feet up in the derrick, as Patterson-Ballagh states you should, if there wasn't any wire line through there, it would assume a certain degree off of the vertical. Of course, when you put [410] the wire line there, it tends to lay along the wire line but we are trying to establish the difference it would be if it took that normal position, as called for in that claim and the angle that the wire line goes through there, and we have shown that for two sizes. I think that is very important because one of these shows it is five degrees off and the other shows it is 10 degrees off. That brings up the question of what is "substantial" and also brings in the question of whether it is any invention by Mr. Moss over what was previously done, not only so far as Exhibit K is concerned but also so far as the testimony of Mr. Reed and Mr. Prehoda as to how they hung the guides, and also the additional testimony, as your Honor will remember—a couple of plaintiffs' own witnesses stated that any practical man



(Testimony of Allen E. Hambly.)

in the oil field would know enough to hang it from the top. So I think this is very important testimony. Have I explained it so that your Honor will see we have some issues here as to the question of infringement and also validity?

Mr. Joseph F. Westall: I don't see any pertinence at all.

The Court: What is your statement about the claim in the Moss patent?

Mr. Caughey: It substantially means two or three degrees, as stated by Mr. Moss in his deposition. He said you could vary it two or three degrees, and then I say we don't [411] infringe. If "substantial" means 10 degrees, then we have a prior art spooler, which is well within the 10 degrees, hanging at four degrees.

Mr. Joseph F. Westall: But not far enough back and I say in your degrees you find necessary in the sale of these infringing devices, whether it is four degrees, five degrees or 10 degrees, then it is substantially so. When they put those up in the derrick, they use their common sense and get it as near as possible following the pictures of Patterson-Ballagh, without figuring exactly how many degrees. So I say that is irrelevant.

Mr. Caughey: It may be to you but you have to take a claim and put language in it so that somebody will be able to take that claim and use the invention according to the claim.

Now, may your Honor please, for example, if this

(Testimony of Allen E. Hambly.)

spooler around this wire line was just right up against it and you put an eye close to it, then the angle of inclination away from the vertical wouldn't be as much as if the eye was farther out and the spooler was thicker.

The Court: Do you dispute the accuracy of this sketch here?

Mr. Joseph F. Westall: I don't know anything about the accuracy of the chart. I have no means of knowing.

The Court: Regardless of whether it is material or not. [412]

Mr. Joseph F. Westall: I don't know whether the angles are correctly proven or not.

The Court: How about the ability of this attorney to make this chart?

Mr. Joseph F. Westall: I don't know. He is a patent attorney. That is a simple job for a patent attorney and I assume he has it correctly stated in there, but I say even there it comes within the Moss patent.

The Court: If there is no dispute as to the accuracy of this particular sketch here and the correctness of the data that appears on the sketch, then, applying that to this case, it is something that the court has to consider, is that correct?

Mr. Joseph F. Westall: I think so; I think that has got to be considered.

The Court: Then, for whatever it is worth—I don't know now whether it is applicable or not—I see the different viewpoints here but, if you don't

(Testimony of Allen E. Hambly.)

dispute the accuracy and correctness of this sketch, I am inclined to admit it in evidence for what it is worth. I don't know whether it will be material or not before we get through with this matter.

Mr. Joseph F. Westall: Yes, your Honor.

Mr. Caughey: May I, for the purpose of the record, have the witness state the conclusions that have resulted from the various things, so it will be in the record? [413]

Mr. Joseph F. Westall: I think that conclusions are not for the witness to draw but for the court.

Mr. Caughey: I mean what the angles mean on there, so there won't be any question about what those angles are.

The Court: I think that should appear in some way. You might make some notes on a piece of paper and attach them to this exhibit.

Mr. Joseph F. Westall: The angles are all indicated.

Q. (By Mr. Caughey): Do you believe, Mr. Hambly, the angles are sufficiently indicated——

A. In other words, you don't want me to explain it, is that correct?

The Court: Whatever explanation is made, I prefer that it be made on paper and attached to this.

Q. (By Mr. Caughey): Will you do that, Mr. Hambly?

The Court: You don't have to do it this minute.

A. I can do that.

Mr. Joseph F. Westall: Of course, if there is an

(Testimony of Allen E. Hambly.)

explanation and he is going to testify to it, he might put a lot of conclusions in which I would want stricken out.

The Court: I am not asking for conclusions but for facts, for an accurate statement of the facts as shown on this sketch here. If those are accurate from your viewpoint or from the correct viewpoint, of a man qualified to make a [414] sketch of this kind——

Mr. Joseph F. Westall: I haven't questioned the accuracy of the indications of the angles there. So it doesn't seem to me that there is anything left here.

Mr. Caughey: If we will agree that this sketch shows an inclination from the vertical of approximately four degrees on the wire line, and that as to Figure 2 it shows an inclination from the vertical of the spooler of nine degrees included angle——

Mr. Joseph F. Westall: Wait a minute. Let me ask you this. When you say nine degrees, here is your hanging line here.

Mr. Caughey: Yes.

The Court: That isn't a hanging of the spooler.

Mr. Joseph F. Westall: That is four degrees.

Mr. Caughey: This is just the line through there.

The Court: Let me suggest this——

A. I can explain the thing in a few simple words, your Honor, if permitted to testify.

The Court: It is getting pretty close to the time



(Testimony of Allen E. Hambly.)

for adjournment and, if you want to study this, Mr. Westall, you may do so over night.

Mr. Joseph F. Westall: Mrs. Moss would like to do it.

Mr. Caughey: No objection.

The Court: Whether or not it will apply in this case I [415] will determine later on.

Mr. Joseph F. Westall: Yes, and how it will apply.

The Court: It may be marked either for identification or in evidence at this particular time.

Mr. Caughey: Well, if he wishes at this time to examine it——

The Court: Suppose you mark it for identification.

Mr. Caughey: All right; let's mark it as the defendants' exhibit next in order, for identification.

The Clerk: Defendants' Exhibit L.

The Court: For identification. And then you will have a chance to study it between now and tomorrow morning and give me your views of it, so I can hear both sides. It is now marked for identification as Defendants' Exhibit L.

The Clerk: Does your Honor wish to permit counsel to take it out of the custody of the court for inspection?

The Court: If you want to take it out, it is perfectly agreeable.

Mr. Joseph F. Westall: Oh, no, because it is obvious, by looking at it, what it is. I won't need to look at it.



(Testimony of Allen E. Hambly.)

The Court: If you want to look at it——

A. If your Honor wants a written description——

The Court: Just a moment.

Mr. Joseph F. Westall: I would like counsel to state, before adjournment, just how many witnesses he has. I will [416] have rebuttal witnesses and I would like to know when to have them here.

Mr. Caughey: This is the last witness I will have.

Mr. Joseph F. Westall: How long will it take?

Mr. Caughey: I don't know how much cross-examination there will be.

Mr. Joseph F. Westall: There won't be any cross-examination.

Mr. Caughey: The further direct examination will depend upon how far we can go with this particular exhibit for identification.

Mr. Joseph F. Westall: Then, you probably will be through very quickly?

Mr. Caughey: Oh, yes; I anticipate I will be through very quickly. I think that we will be through, as far as the evidence is concerned, depending on what you have in rebuttal, certainly by early in the morning. Has your Honor any idea as to how you want this case handled?

The Court: I don't know just yet. Have you any rebuttal?

Mr. Joseph F. Westall: I have a little rebuttal.

The Court: I would like to have the issues clearly defined so that I will understand them.

(Testimony of Allen E. Hambly.)

Mr. Joseph F. Westall: Would your Honor like to have it submitted on briefs?

The Court: Probably you might give me some oral [417] argument and then, if I want briefs, I can have them.

Mr. Caughey: Will you set a date down for oral argument, or after we get through tomorrow?

The Court: After we get through tomorrow, you may give me some oral argument.

Mr. Joseph F. Westall: There are so many things in the case we say are irrelevant to the issues and a jumble of dates and circumstances, that, in order to straighten that out, it requires quite a little while to argue; but we can argue it if you will listen to rather a full argument.

The Court: All right. You may do this; you may file your briefs and then argue it if necessary.

Mr. Joseph F. Westall: We will argue it orally and then file briefs because then your Honor can check over the briefs, if your Honor desires. But I imagine it will take quite a little while to argue it.

The Court: That is the reason I suggested that, if you make some oral argument and then file your briefs, then I can have a better understanding, when I read your briefs, just what the real issues are and what your views are.

Mr. Caughey: Any way that is satisfactory to your Honor.

The Court: I thought, in presenting this sketch, you were getting to the meat of the proposition in

(Testimony of Allen E. Hambly.)

argument rather than presenting evidence. Isn't that true?

Mr. Caughey: No. I think it ought to be put in as [418] evidence and give the other side an opportunity of seeing it.

The Court: I will admit it in evidence. Let it be admitted in evidence.

Mr. Joseph F. Westall: For what it is worth.

The Court: Yes, and then it is here. And you advise the court as to its application.

Mr. Caughey: I will, sir.

The Court: As to the merits of this case. Then, this will be marked in evidence as Defendants' Exhibit L. And, if the court is in error in having admitted it, you have, Mr. Westall, the privilege of a motion to strike.

Mr. Joseph F. Westall: Yes; thank you. I think it is more argument than it is evidence.

The Court: We will stand in recess.

(Whereupon, an adjournment was taken until 10:00 o'clock a.m., Friday, February 20, 1948.) [419]

Friday, February 20, 1948—10:00 A.M.

(Same appearances.)

Mr. Joseph F. Westall: If the court please, there were certain exhibits which we didn't have and which we have since gotten photostats of, which I should now like to offer and have them marked by the clerk. I have furnished copies of each to oppos-

ing counsel. They are Plaintiffs' Exhibits 23, 27 and 30. There is one missing. We had offered in evidence Plaintiffs' Exhibit 9, the Oil and Gas Journal of March 31, 1945, page 8, but the page was torn out of the book, and they didn't have it in the Los Angeles Library nor did they have any copies in the Long Beach Library. So we will have to cancel that offer.

The Court: What is the offer on that?

Mr. Joseph F. Westall: We offered it in evidence and we were to get a photostat.

The Court: What was it about?

Mr. Joseph F. Westall: It was showing some of the spoolers of the defendants that they made in 1945.

The Court: The same kind of spoolers?

Mr. Joseph F. Westall: The same kind of spoolers.

The Court: There is no contention about that, is there?

Mr. Joseph F. Westall: No; there won't be any contention about that. And your Honor will notice that I, very [420] charitably am not suggesting that possibly counsel for defendants tore it out. I say I am very charitably not suggesting at all that opposing counsel did it.

Mr. Caughey: I think the remark is uncalled for, whether charitable or not.

The Court: I think I understand counsel, that he is feeling a little gay this morning.

Mr. Caughey: I am not so sure.

(Testimony of Allen E. Hambly.)

The Court: I don't think there is any offense intended by that remark.

Mr. Caughey: I trust not. As I understand, there is no question about the contents of that exhibit.

Mr. Joseph F. Westall: No; there is not, and we have got sufficient others in to take its place, so that I don't think it is very material.

The Clerk: Are you speaking of No. 29?

Mr. Joseph F. Westall: I am speaking of the one which we don't have, which is No. 29.

The Clerk: Shall I indicate that that offer is withdrawn?

Mr. Joseph F. Westall: We can withdraw it because we haven't got it and it doesn't make any difference.

The Clerk: And also, your Honor, the defendants have now offered the photostat of Defendants' Exhibit A, which I have marked in evidence. [421]

Mr. Caughey: You have a copy of it?

Mr. Joseph F. Westall: Yes; I have a copy of it.

The Clerk: It was admitted as of yesterday.

Mr. Caughey: Mr. Hambly, will you take the stand again, please?



## ALLEN E. HAMBLY

a witness for the defendants, being heretofore duly sworn, resumed the stand and testified further as follows:

## Direct Examination

(Resumed)

By Mr. Caughey:

Q. I believe you previously testified you were a patent attorney? A. That is right.

Q. How long have you been a patent attorney?

A. I have been practicing as a patent attorney for a little over 10 years.

Q. And what is your education? What is your educational background?

A. I am a graduate of the Colorado School of Mines, in mining and engineering, and a law degree from the Washington College of Law, Washington, D. C.

Q. How long have you been employed by Byron Jackson Company? A. Since October, 1937.

Q. During your employment by Byron Jackson Company, did [422] you have any occasion to check into drilling rigs and structures that were used in drilling rigs?

A. Yes; many occasions. We have a patent and engineering committee, of which I am the chairman, and one of the functions of this committee is to consider a wide variety of inventions relating to oil field equipment and so forth; and, in, I believe it was, 1940 and 1941, we were considering going into the business of manufacturing drilling rigs, that is, derricks, draw-works and rotary tables and

(Testimony of Allen E. Hambly.)

any other rig, and I made an extensive investigation of all makes of rigs at that time and, during that investigation, I became quite familiar with the dimensions and various constructional features of all of the rigs on the market at that time.

Q. Have you had occasion, as an employee of Byron Jackson Company, to go into the field and look at rigs in the field and watch their operations?

A. Many times; very frequently.

Q. Have you any test rigs set up at the Byron Jackson plant?

A. We have a 122-foot A.P.I. derrick in our yard at the plant, 2301 East Vernon, and a complete drilling rig, including the derrick and the draw-works, which is the element which includes the drum on which the line is spooled, the rotary table which rotates the drill pipe, the mud pumps which circulate the drilling fluid down through the drill [423] pipe to remove the cuttings from the well, and a driving engine for the draw-works and a rotary table.

The Court: You are qualifying him as an expert? Is that the purpose?

Mr. Caughey: Yes, sir, I want to show he is familiar with this.

The Court: Is there any question about this, Mr. Westall?

Mr. Joseph F. Westall: There isn't any question as to his ability as a patent attorney and I haven't made any question about the exhibit he has offered. And, furthermore, we have gone over that

(Testimony of Allen E. Hambly.)

by many witnesses, all about rigs and sizes, and I think it is cumulative and unnecessary.

Mr. Caughey: You made an objection when I started in and that is why I am qualifying him.

Mr. Joseph F. Westall: I say anything he may testify regarding rigs and the different things he has mentioned is totally irrelevant in the case.

Mr. Caughey: That may be your opinion but that has nothing to do with the question of whether the man is qualified.

Q. Have you had occasion to watch this drilling rig in operation at the Byron Jackson plant?

A. Many times.

Q. And does that rig have installed on it a Patterson-Ballagh [424] spooler?

A. Yes; it has. It has what is known as the quartette type, which is the 32-inch length design.

Q. And that is an actual commercial-sized spooler, is that right?

A. That is right. That was used when the rig was put up, which was either in 1942 or 1943, before Byron Jackson acquired the Patterson-Ballagh Corporation.

Q. Is that spooler so installed that it will operate? Is it threaded through the wire rope?

A. Yes; it is installed in the same way as that model is installed in the plaintiffs' exhibit.

Q. Except it is a full-sized rig and a full-sized spooler? A. That is right.

Mr. Caughey: May your Honor please, we would be glad, if there is any question about how that is

(Testimony of Allen E. Hambly.)

operated, to have your Honor adjourn court and go down there at any time that might be convenient to your Honor, not necessarily today but any time prior to the conclusion of this case, and watch one of these actual spoolers in operation, used in the wells.

Mr. Joseph F. Westall: If you Honor wanted to do that, of course, I would be agreeable, if your Honor desired any such further view of the matter. I wouldn't object to it of course, but I don't think it is necessary. The device is [425] very simple. We have a model of it which the witness has just identified.

The Court: Are there any models of a Moss patent in operation?

Mr. Joseph F. Westall: Yes.

The Court: Where are they in operation?

Mr. Joseph F. Westall: They are in operation by Paterson-Ballagh Corporation. Every time Paterson-Ballagh, since the grant of our patent, has made one, it has made a Moss spooler. Every one of them is a Moss spooler.

The Court: I will ask this question, if you are in position to answer it. Is there being manufactured or are there there being now manufactured the spoolers of the patent by Moss?

Mr. Joseph F. Westall: Oh, yes. Mrs. Moss has testified that they have made and sold a number of them.

The Court: Are any of these in operation?

(Testimony of Allen E. Hambly.)

Mr. Joseph F. Westall: It may possibly be that there are.

Mrs. Moss: Yes.

Mr. Joseph F. Westall: In actual operation?

Mrs. Moss: Yes, sir.

Mr. Joseph F. Westall: In drilling?

Mrs. Moss: Yes.

The Court: In this vicinity?

Mrs. Moss: In Long Beach. [426]

Mr. Joseph F. Westall: Are they of recent origin, those makes?

Mrs. Moss: They are the same way they have always been made.

Mr. Joseph F. Westall: The same thing?

Mrs. Moss: Yes. In fact, within about four blocks of each other, there is a Patterson-Ballagh spooler in operation and a Moss spooler in operation.

Mr. Joseph F. Westall: Both in operation?

Mrs. Moss: Right near the vicinity of each other.

The Court: If I think it may be advisable later on, I will let you know.

Mr. Caughey: Yes, sir.

The Court: I may want to see this device in operation and probably both of them. I know there is only one involved in so far as your contention is concerned, which is your patent, the Moss patent.

Mrs. Moss: May I say this: If we do look at the device, let's look at one that is actually operating on a drilling well, one that is not on display.



(Testimony of Allen E. Hambly.)

The Court: Will you communicate that to your counsel?

Mr. Joseph F. Westall: Yes. We will wait until we hear from your Honor and will be glad to co-operate in any way we can.

The Court: Yes. [427]

Q. (By Mr. Caughey): I believe you testified that you became familiar with dimensions of drill-rigs during your study that you made?

A. That is right.

Q. In addition to your study, is there any standard pamphlet or anything that gives the dimensions relied upon by the oil industry?

A. Yes, there is.

Q. What is that?

A. That is the specifications put out by the American Petroleum Institute.

Mr. Joseph F. Westall: If the court please, this is entirely irrelevant. There is no issue as to size of rigs. It has been testified how big they were, how high they were, and all about their sizes, and you will find there will be no issue as to rigs. We don't claim a patent on a derrick.

The Court: But there is a claim here on the part of the defendants that your claim is so indefinite that the validity of your patent in that respect is in dispute. Is that your claim?

Mr. Caughey: That is one of the claims.

Mr. Joseph F. Westall: That, of course, is in dispute but it will be a matter of argument and we say it is entirely irrelevant.

(Testimony of Allen E. Hambly.)

The Court: I am not sure at this time whether it is or [428] isn't.

Mr. Joseph F. Westall: I know on many of these objections your Honor couldn't be sure and your Honor had to let much of the evidence in because you couldn't know until final argument.

The Court: In fact, I haven't had an opportunity to examine all of these exhibits. There is a mass that I will have to examine carefully. This trial has been in constant progress and I haven't had the opportunity of going through these exhibits carefully. So I want all the light I can possibly get, from every conceivable viewpoint.

Mr. Joseph F. Westall: Yes, your Honor. And you will find the examination of all those different exhibits could be deferred until you hear the arguments because you will find then just how they fit together and what pertinence they have.

The Court: You may proceed. And give me whatever you have in relation to that inquiry and then I can determine later on if it has any relevancy.

Q. (By Mr. Caughey): I show you a booklet, consisting of some 82 pages, and ask you to look at it and state whether you can tell what that is.

A. That is a copy of the A. P. I. Standard No. 4, 12th Edition, published in July, 1944, and it is entitled, "A. P. I. Specifications for Standard Rigs, Derricks and Accessory Equipment." [429]

Q. Is that the same pamphlet you previously referred to?

A. That is correct.

(Testimony of Allen E. Hambly.)

Q. That is relied upon in the industry to show the dimensions of rigs?           A. That is right.

Q. Will you please turn to the page, if there is one in there, that shows those dimensions?

A. Pages 6, 7 and 8, contain a table of dimensions of derricks, standard steel derricks, of various heights. The dimensions are referred to by reference to the letters A, B, C, and so forth.

The Court: What bearing will this have in relation to this particular matter which, apparently, was first conceived in 1936 or 1937 or thereabouts? What bearing will that have on a 1944 survey or synopsis?

Mr. Caughey: Patterson-Ballagh sold spoolers in 1944, '5 and '6 which were charged to be infringements, and we want to show not only what they were at that time but we have previous testimony as to what they were in 1936 and '7, and we want to show the standard size now is substantially the same. [430]

Mr. Joseph F. Westall: We say it is totally irrelevant. Furthermore, those same derricks are what Moss is hanging in. They hang them the way Moss hangs them.

Mr. Caughey: That isn't the question in this case.

The Court: Go ahead.

Q. (By Mr. Caughey): Proceed, Mr. Hambly.

A. This table, on page 8, refers to the 122-foot derrick as having a 24-foot square base and a five-foot six-inch water table opening, which is the

(Testimony of Allen E. Hambly.)

dimension on each side, of the side dimension of the derrick at the top.

The Court: What page is that?

A. Page 8. The same table gives the dimensions for the standard 136-foot derrick as having a 26-foot base and the same five-foot six-inch water table opening. All the A. P. I. derricks have the same water table opening dimension.

Mr. Caughey: The booklet identified by the witness, and particularly the pages referred to, is offered in evidence as defendants' exhibit next in order.

Mr. Joseph F. Westall: That is objected to as irrelevant and immaterial to any issue in the case.

The Court: It may be received and marked Defendants' Exhibit M in evidence.

Mr. Caughey: May your Honor please, I don't know whether Mr. Westall had an opportunity to look at this exhibit or not but, in order that there may be no question in [431] the future about some computation or about the way it was done and so on, I believe the best thing to do is to have this witness testify to it, as to the way it was made and what the angles mean and how they were computed, so that later we won't have any question or any argument as to just exactly what they cover.

Mr. Joseph F. Westall: We have already stipulated or stated that we believe those angles are correct and that they are correctly figured. I had intended to bring a protractor here and figure it, although I don't think it is material. We have agreed



(Testimony of Allen E. Hambly.)

to it, so I don't see why we should take the time to go over it.

Mr. Caughey: He hasn't fully explained it.

The Court: Your computations are based upon the tables set forth in that exhibit, is that correct?

A. The computations as to the derrick itself, not as to the natural angle of inclination of the spooler.

The Court: That is your computation?

A. That is my computation but it is not based on any figures given in Exhibit M.

Mr. Caughey: That is what I want him to explain, so there won't be any question about it.

Q. Mr. Hambly, with reference to Figure 2 of Defendant's Exhibit L, will you specify what Patterson-Ballagh spooler is shown therein? [432]

A. Are you referring to Figure 2 or Figure 3, at the bottom? Figure 2 is the sextette or six-section guide. Figure 3 is the quartette.

Q. I am referring to Figure 3.

A. Figure 3 illustrates a side view of the Patterson-Ballagh quartette or four-section guide, having four rubber inserts. No. 3 is the quartette and 2 is the sextette.

Q. With reference to that particular Figure—3, is it? A. Yes, sir.

Q. —will you please explain how you determine, when the spooler is hanging freely there from a hanging line attached to the upper eye, that the axis of the spooler is inclined at an angle of 14



(Testimony of Allen E. Hambly.)

degrees as shown on that Figure? Do you want to use anything to demonstrate?

A. If I could use that small model.

Q. May I ask what this small model is?

A. This is a one-fourth scale model of a Patterson-Ballagh four-section spooler, made to scale.

Q. Made to scale?

A. Of the type which they now manufacture. The eye at the upper end is the eye to which this hanging line is attached and it is an elementary principle of physics that any body which is suspended freely from a single point will assume a position in which the center of gravity of the body is [433] directly below that point of suspension.

If it is due to the force of gravity, assuming it is concentrated at the center of gravity, which in this case, as in any symmetrical body, is half way between the ends and directly on the axis, that is, the center of gravity of the body; and, when that body is suspended from a central point and free to tilt or swing any way, it is under the influence of gravity and is not restrained by any other force, such as by having a line spooled through it, that will hang with the center of gravity directly below the point of suspension. And it is a simple mathematical computation to determine what angle the axis of the spooler assumes when it is hanging in that freely-suspended position because you have a right angle, one leg of which is the distance from the eye, along the axis to the center of gravity, the

(Testimony of Allen E. Hambly.)

other leg of the triangle being the distance from the axis straight out at right angles to the axis to the point of suspension; and, if those distances are known the angle of inclination can be known. In this particular spooler the body is 28 inches long and this point of suspension at which the hanging line engages the eye is  $3\frac{1}{2}$  inches offset from the axis. I believe that Mr. Ballagh testified, from memory——

Q. He said four.

A.  $4\frac{1}{2}$ , but I actually measured the distance and it is  $3\frac{1}{2}$  inches. And from this dimension, that 14 inches [434] from the end down to the center of gravity,  $3\frac{1}{2}$  over 14 is the tangent of that included angle between the line X on Figure 3, which represents the axis of the spooler, and the line 14, which represents the vertical hanging line. That included angle between those two lines can be determined from the two dimensions of this triangle. The tangent of that included angle is this offset dimension,  $3\frac{1}{2}$  divided by the longitudinal dimension of 14, which in this case is exactly one-fourth or .25. From a table of natural tangents, the angle, which has a tangent of .25, can be found in the tables and it is 14 degrees. That is how that angle is determined mathematically.

Q. And I believe you previously stated that the angle of inclination of the wire rope of the drum was how much for a 122-foot derrick?

A. Approximately 4 degrees and 16 or 17 minutes; less than  $4\frac{1}{2}$  degrees.

Q. What would be the difference, then, between

(Testimony of Allen E. Hambly.)

that normal angle of the spooler, if it hung freely, and the angle of the inclination of the line?

A. Since the drilling line is inclined at an angle of approximately 4 degrees and the axis of the spooler, when suspended freely, is inclined at an axis of approximately very close to 14 degrees, then the axis of the spooler in that position is offset approximately 10 degrees from the [435] line.

Q. Referring to the Figure which shows the six-section spooler—

A. That is Figure 2.

Q. —will you please explain in a similar manner how you made the computations shown thereon?

A. The determination of the angle of inclination of the six-section spooler, the Patterson-Ballagh spooler, when hung freely from the hanging line at the upper eye, was determined by the same process as in the case of the four-section spooler, the only difference being that the six-section spooler has a 44-inch body instead of a 28-inch body, which places the center of gravity 22 inches below the top of the body or the metal housing, in other words, 22 inches below the eye. And in that case the tangent of the included angle, between the axis of the spooler and the vertical hanging line, or a vertical plane, is  $3\frac{1}{2}$  divided by 22 instead of  $3\frac{1}{2}$  divided by 14, as in the case of the four-section spooler.

Q. And that angle was determined as nine degrees, approximately?

A. I believe it was nine degrees and five minutes.

Q. Are you familiar with the two-section spool-

(Testimony of Allen E. Hambly.)

ers that are manufactured and sold by Patterson-Ballagh?      A. Yes. [436]

Q. And with the dimensions thereof?

A. Yes.

Q. Have you made any computations in connection with that particular spooler to show the included angle, such as you have in Figures 2 and 3?

A. Yes; I have, but we decided not to show it on here because it is so far away from the axis of the line. It is a much worse condition than the four-section spooler of Figure 3. The two-section spooler has two 8-inch rubber inserts and an overall length of 16 inches. The body is 12 inches long, which places the center of gravity 6 inches below the top and below the point of suspension. So in that case the angle of inclination of the axis of the spooler, when hung freely from the upper eye, is that angle which has a tangent of  $3\frac{1}{2}$  divided by 6, and that angle is 30 degrees and some odd minutes, 20 minutes, I believe.

Q. And the difference between that 30 degrees and the normal inclination of the line would be what?

A. That would be approximately 26 degrees. In the case of the six-section spooler of Figure 2, I don't believe I mentioned that, with the 9-degree inclination of the axis of the spooler from the vertical, that places the spooler axis offset from the line approximately 5 degrees.

Q. Referring to Figure 4, will you please explain what that is? [437]



(Testimony of Allen E. Hambly.)

A. Figure 4 is a side view of the Patterson-Ballagh four-section spooler, hung not by the single eye in the back but hung from the two eyes at the side, to which the side bridles or the upper forks of the side bridles are attached, in other words, hung in accordance with some of the testimony which the defendant has put in as to the hanging of the Reserve Oil and Gas spooler and the hanging of the Reed split-pipe spooler which was used on Gibson No. 7 and the hanging of the wooden spooler which was used on Belridge No. 19. In other words, it is hung from two points which are diametrically opposite the axis, so that the spooler assumes a vertical position. The axis of the spooler is vertical instead of inclined as when you hang it from an offset eye. This Figure 4 is intended to illustrate that position of the spooler when hung in that manner and to show that the axis of the spooler in that case is offset from the drilling line only 4 degrees, which is less than the offset in the case of any of the other illustrations.

Q. Regardless of the length of the Patterson-Ballagh spoolers, is the eye always the same distance from the axis?

A. That eye is the same distance from the axis because they use the same diameter rubbers and the same wall thickness. In other words, all spoolers are identical in the upper portion of them. The difference is in the length.



(Testimony of Allen E. Hambly.)

Q. Mr. Hambly, have you computed how long a spooler [438] body would have to be in order that the body would normally hang freely at the same angle of inclination as the wire line, that is, the four degrees angle or approximately?

A. I have.

Q. Will you please give the results?

A. May I refer to notes?

Q. Yes, if you have some notes.

A. Yes; I have computations of that. In order to have an inclination of four degrees on the axis of the spooler, inclined 4 degrees from the vertical, the spooler would have to be of such a length and the center of gravity would have to be such a distance below the top of the spooler that that included angle would have a tangent of four degrees. And the length from the top of the spooler to the center of gravity at the mid point of the spooler can be determined if we know the angle of this triangle and we know one side. You simply divide the  $3\frac{1}{2}$  offset by the tangent of 4 degrees. The tangent of 4 degrees is .06993, and from that it is determined that the center of gravity would have to be 50 inches below the top of the spooler. In other words, the body would have to be a hundred inches long. And, since the center of gravity is mid way between the ends and with a 2-inch overhang of the rubbers at each end, it would be 104 inches long, which is 8 feet 4 inches, and would require 13 rubbers to fit in that 104 inches exactly. [439]

(Testimony of Allen E. Hambly.)

Q. And the longest length that Patterson-Ballagh makes is a six-section?

A. 48 inches overall.

Q. Is that with the eye  $3\frac{1}{2}$  inches from the axis? A. That is right.

Q. Did you make any computations with the eye any closer to the axis?

The Court: What is this testimony for? I am trying to get some information here. When you go into these various lengths and formulas, I don't know how it will help.

Mr. Caughey: I can explain that in language I think you and I can understand afterwards.

Mr. Joseph F. Westall: I would like to explain this. It doesn't have a bit to do with the case. It is totally irrelevant.

The Court: It may not but, first, I think I should have the information to see whether it applies or not.

Mr. Joseph F. Westall: Yes; that is true.

Mr. Caughey: I will endeavor to show your Honor exactly how it applies and what it means. We have to get the measurements in first so there won't be any question about the angle.

The Court: May I suggest, if the witness would note down on a sheet of paper his various calculations here, these various lengths and various angles——

Mr. Caughey: They are in the record. [440]

The Court: Wouldn't that help to analyze the chart?

(Testimony of Allen E. Hambly.)

Mr. Caughey: When your Honor suggested that and I said that would be satisfactory, Mr. Westall said then that they are self-serving and that they had better be in the record.

The Court: After his testimony, if he will supplement his testimony with his calculations in writing and attach it to the chart, I think it will be advisable.

Mr. Caughey: We will be glad to do that and we will attach them right to the exhibit.

A. I can make them in ink right on the exhibit.

The Court: That is one way of doing it, too.

Q. (By Mr. Caughey): Mr. Hambly, the distance which the eye is offset from the axis, which would be the wire rope going through the guide or spooler—is that important in so far as the angle of inclination is concerned?

A. It is very important. It has a strong bearing on what angle the spooler will normally assume.

Q. In other words, the closer to the axis, you would have a less angle of inclination, is that right?

A. That is right for the same length, for a spooler of the same length. A given length, the closer the point of connection of the hanging line to the eye is, the more nearly vertical the spooler will hang.

Q. Can you explain that by taking that little model [441] and perhaps holding it so we can see what you mean?

A. I can do it this way, I believe. Hanging it by this eye, it assumes that angle.

(Testimony of Allen E. Hambly.)

The Court: That is the eye at the top?

A. That is the eye at the top. If that eye were moved in closer to the axis—it is a little difficult to show that except possibly on this side—in effect, by taking the two points offset from the axis, or the line offset from the axis, that is the equivalent of suspending it from a single point on that line. If we get out here, that is the equivalent of suspending it from a point on the outer diameter of the rubber and, as can be seen, it assumes a more nearly vertical position than when it is suspended out here at the eye.

Q. Will you suspend it from the eye so the court can see that?

A. It is that angle suspended from the eye. Here is a closer position. A line between these two hits somewhere on the top of the rubber. When we get into or on the two points right on the axis, then it hangs directly vertical, as I have shown in this case. There is a limit how far in you can go with an eye because you have got to have a certain amount of rubber between the line and the body. The less rubber you have the shorter life you will have, for you have to replace the rubbers. Patterson-Ballagh rubbers are five [442] inches in diameter. The hole is approximately an inch and a quarter in diameter for an inch and an eighth line, which means that you have a thickness of rubber of  $2\frac{1}{2}$  less  $\frac{5}{8}$ , which is a little less than two inches on the side. If you use smaller rubbers—



(Testimony of Allen E. Hambly.)

The Court: It isn't a question of rubbers. It is a question of something else, isn't it?

Mr. Caughey: The size of the diameter of the rubbers depends on where you put the eye.

A. If you use a single eye, it has to be outside of the rubbers. If you suspend from two points on opposite sides, you can get the effect of suspending from a single point within the dimensions of the rubber.

Mr. Caughey: In other words, it would hang vertically.

The Court: There is nothing involved in that respect here, is there?

Mr. Caughey: Yes; there is because we have in evidence prior art photographs showing they are hung vertically at the top, which would tend to cause the spooler to assume an angle which is substantially contiguous to the line.

The Court: But that evidence goes to the suspension of the eye at each side from the top?

Mr. Caughey: That is right.

The Court: Not on the inside but on the outside?

Mr. Caughey: The Moss spooler has an eye on the outside [443] also.

The Court: How can the suspension from the inside of the rubber area affect the situation?

Mr. Caughey: They are both suspended from the outside. One is suspended on one side and the others are suspended from their sides.

The Court: The witness is assuming a suspension from the inside, within the rubber area.



(Testimony of Allen E. Hambly.)

Q. (By Mr. Caughey): Will you please explain that a little more fully?

A. By suspending it from two points down here——

The Court: Two points on the outside?

A. On the outside but which are offset from the axis—the line between those two points extends through the rubber. That has the effect of suspending it from a single point on that line, if you could put an eye in there.

The Court: In other words, it would be as nearly vertical as possible?

A. Yes.

Mr. Caughey: That is correct.

A. And, in order to get a suspension at an angle of four degrees, to exactly conform to the angle of the line, you would either have to use two side points of suspension or you would have to reduce the size of the rubber sufficiently to bring the body in to that point close to the axis. [444]

Mr. Caughey: The model which the witness has identified and which he has used in his testimony, in illustrating his testimony, is offered in evidence as Defendants' next exhibit in order. He will testify that is a scale model of a Patterson-Ballagh four-section spooler.

The Court: It may be received.

The Clerk: Defendants' Exhibit N.

Q. (By Mr. Caughey): In your testimony, when you have been talking about the angle of inclination, you have been talking about the way in

(Testimony of Allen E. Hambly.)

which the body would incline if the wire rope wasn't threaded through it, is that correct?

A. That is correct, when it is suspended freely in its natural or normal suspended position.

Q. I believe you have previously testified that you have read the Moss patent, have you not?

A. I have and I so testified, I believe.

Q. Are you familiar with claim 2?

A. I am.

Q. And with the use of the word "normal" therein?

A. I believe the word "normal" is used in the phrase which defines the axis of the draw line controller as normally parallel and contiguous to the drilling line.

Mr. Joseph F. Westall: Now, if the court please, we move to strike out the answer on the ground that the interpretation of that claim is for the court. This witness should [445] not be allowed to attempt to place interpretation on it. That is a matter of argument and not evidence.

Mr. Caughey: I don't agree. This man is an expert witness and we are not asking him to interpret the entire claim. We are asking him what one word means in there. The plaintiff has made no attempt in this case to go into this patent and tell your Honor what the claims are or anything else, and there is a very good reason for it, and I think that your Honor should be assisted in some way in this case so that you will know what these things mean, without having to come to argument. Let's

(Testimony of Allen E. Hambly.)

get some evidence in the case and see what they mean, without arguing and having nothing in the record to support the argument.

Mr. Joseph F. Westall: The interpretation of a claim is for the court, in the light of the argument. Counsel says this witness is an expert and an attorney. Counsel is also an attorney and can explain it to the court.

The Court: Let me ask you this question. What is there for the court to determine in this case in relation to this claim No. 2? You are now inquiring or getting expert testimony as to the use of the word "normal" here?

Mr. Caughey: Yes. And I would ask your Honor to read this claim now, as you have heard this case, and see if you understand from what you have heard of this case what the word "normal" means. If you do, then I won't ask the question of [446] the witness at all.

The Court: I don't know that I quite understand it. The phrase is used, "to support the body in normal position with the bore substantially parallel and contiguous to the line."

Mr. Joseph F. Westall: We will find, when we come to argue the case, that is perfectly proper, and we have the face of the patent itself. It speaks for itself. The interpretation is for the court. A witness may be called, an expert witness, to explain things of the prior art that are not understood.

Mr. Caughey: All right. Will you stipulate with

(Testimony of Allen E. Hambly.)

me, Mr. Westall, that that term as used in that claim means that, with the wire line being threaded through it—it means that the spooler, being hung freely, suspended, would assume a position which is substantially parallel to the wire line if it were threaded through it?

Mr. Joseph F. Westall: The claim speaks for itself. That is all I can say.

Mr. Caughey: You won't so stipulate?

Mr. Joseph F. Westall: I will stipulate that the claim says what it does and, in the light of the specification, it is clear what it says.

Mr. Caughey: Will you say that I am wrong in my statement, Mr. Westall? [447]

Mr. Joseph F. Westall: Your statement is not complete and is misleading and it will be shown in the argument that it is that way. There is nothing wrong with those claims, as will be shown, and as is already clearly in evidence.

Mr. Caughey: I think your Honor can see the reason for my question, so that your Honor will have some evidence to back up the language. There is no definition of the word "normal" in and of itself there, and you have to read the patent entirely.

The Court: What is the law with reference to receiving evidence to explain the meaning of terms used in claims?

Mr. Caughey: It is done every day. You don't have to be bound by the testimony of an expert. It is customary in patent cases and in any technical



(Testimony of Allen E. Hambly.)

case to receive evidence of this nature. As Mr. Westall knows, it is done in practically every patent case we have.

Mr. Joseph F. Westall: No; I don't know anything of the kind. What they are attempting to do is to get an argument over by another patent, in the guise of examination. He is stating matters of opinion.

The Court: Let's see if I understand this situation correctly. You claim that your patent is infringed upon because of the location of the eye at the top?

Mr. Joseph F. Westall: The hanging line.

The Court: If that is the case, wouldn't the same principle [448] apply, in so far as your patent is concerned, as counsel now seeks to have apply to this other patent, the defendants' patent.

Mr. Joseph F. Westall: I don't think there is anything different. I may not understand fully but I don't know any difference between these two patents so far as the idea of hanging the thing correctly is concerned.

The Court: If an explanation is made of the use of these terms in relation to the model that has just been offered in evidence, wouldn't that explanation have the same force with respect to your patent?

Mr. Joseph F. Westall: It probably would have the same effect as to my patent.

The Court: In other words, wouldn't the same



(Testimony of Allen E. Hambly.)

principle of physics or whatever else is involved here be applicable in your patent as well?

Mr. Joseph F. Westall: I think it would be applicable to either one of them.

The Court: If that is the case, and if the terms used in this claim as set out in the patent are susceptible of construction or should be, then, why isn't this testimony of assistance to the court in that respect?

Mr. Joseph F. Westall: Because there are courts which will not permit an expert to compare the claims. We have had that ruling many times. If so, the ultimate question is for [449] the court. The patent itself is evidence and we have much evidence in here as to how it was applied.

The Court: But in this particular instance there is no comparison of the claims. The same principle in physics may apply in one case as in the other.

Mr. Joseph F. Westall: Yes; the same. That is true, your Honor.

Mr. Caughey: And that is exactly what I have in mind.

The Court: I still have considerable to learn about what your theories are here, which I will get, no doubt, from your arguments. I can't see at this time that it will do any harm to the matter in issue if you apply the same explanation in so far as this particular element is concerned, to both patents. If it applies the same to both patents, how can it be any particular detriment to the issues in this case?

(Testimony of Allen E. Hambly.)

Mr. Joseph F. Westall: I don't think it is any particular detriment. I don't think that. But, you see, a witness is called to testify to facts, not as to matters of law, and the purport of these questions is to have this witness testify to matters of law. Now, the facts are clear.

Mr. Caughey: No. A fact witness is on thing and an expert witness, who testifies to what the state of the patent is, is a different thing.

The Court: We are now construing the language used in the patent, the Moss patent? [450]

Mr. Joseph F. Westall: Yes.

Mr. Caughey: We are not construing the whole claim or asking your Honor to pass on the question of validity. We are merely asking, from the witness' knowledge by reading the patent and claims, what he understands by the words "normal position," as a patent attorney, so that it will assist the court.

Mr. Joseph F. Westall: That is an interpretation of the claims. That doesn't aid the court because the court can make his own interpretation after hearing the arguments.

Mr. Caughey: But the court needs all of the assistance it can get in interpreting these claims and that is the reason for this.

The Court: What do you claim, Mr. Westall, is the "normal position"? Do you make any claim in that respect?

Mr. Joseph F. Westall: It is just as he has described in the claim.

(Testimony of Allen E. Hambly.)

The Court: What is it?

Mr. Joseph F. Westall: The only way I could answer it would be to read the claim.

The Court: What is your theory about what a "normal position" is?

Mr. Joseph F. Westall: Just as I say; it is just as described in the claim. You can't make the claim specific as to degrees. [451]

The Court: You have a model here. Can you illustrate on your model just what is in your mind as to the "normal position" of that device?

Mr. Joseph F. Westall: I will read the claim. "A draw-works drum line controller body having an elongate, line receiving bore, a pair of opposite lateral control devices each including parts diverging toward the opposite ends of and connected to said body to stabilize it against vibration on its minor axis in the plane of said devices, and a suspension means connected to said body at a point eccentric to the major axis and adjacent to one end of the body to support the body in normal position."

When it is supported, it is in normal position provided it is directed downward to the drum.

Mr. Caughey: What is directed downward to the drum?

Mr. Joseph F. Westall: The spooler line is directed as when somebody—it says, "to support the body in normal position with the bore substantially parallel and contiguous to the line for reception thereof substantially without load of the

(Testimony of Allen E. Hambly.)

body on the line when this is in a vertical plane transverse to the axis of the draw works drum."

The Court: And is that the normal position?

Mr. Joseph F. Westall: It says parallel with a contiguous line.

The Court: The normal position would be the angle, then, [452] of the line that goes through it, is that it?

Mr. Joseph F. Westall: Yes.

The Court: Whatever degree it may have at that time?

Mr. Joseph F. Westall: Yes. "Contiguous to the line for reception thereof substantially without load of the body on the line." In other words, when it is suspended there, there is no weight of the body on the line. It is suspended so as to have the bore in a proper position for the line to go through and be spooled.

The Court: And, if it is suspended in the normal position, it would mean, if you were to drop the line through there, there would be no friction or contact with any part of the interior, is that it?

Mr. Joseph F. Westall: They can't possibly avoid some little friction here but it is to minimize it as much as possible.

The Court: I don't mean in the use of it. But let us say, when it is not in use and it is in a normal position, is it absolutely parallel to the line that goes through it?

Mr. Joseph F. Westall: It is as parallel as they could naturally get it. It would be impossible



(Testimony of Allen E. Hambly.)

for anybody to tie that up and have it just exactly but it is substantially so.

The Court: Just what do you mean by the words "normal," "substantially," and all of those words?

Mr. Joseph F. Westall: "the normal position with the [453] bore substantially parallel."

The Court: What does that mean?

Mr. Joseph F. Westall: As parallel as they can get it with the bore through there.

The Court: Then, it isn't parallel? Is it or isn't it?

Mr. Joseph F. Westall: It is substantially so, as nearly as can be gotten.

The Court: When you use that term and say "substantially," you use it relatively in connection with some other object, don't you?

Mr. Joseph F. Westall: Yes; but you are using it in regard to the line which is being spooled.

The Court: If you say "substantially parallel" to that line, you mean it is parallel?

Mr. Joseph F. Westall: It means as parallel as they can make it. Of course, you know, when that winds up on the drum, it gets thicker and gets wider and so forth, and all that varies just a little bit. So that all you can say there is "substantially" so. That is the nearest they could come to it and I don't know of any other way I can explain that "normal position," and that, to me, seems to be clear.

Mr. Caughey: May I give my explanation of what I think "normal" means as used?

The Court: Yes. [454]



(Testimony of Allen E. Hambly.)

Mr. Caughey: I think the words "normal position" as used in that claim mean this. If you take and attach a line to a girt on the derrick and you let it fall down, and attach the other end to a spooler and let it drop down and go down straight, so that, depending upon where this was attached, it would assume an angle of inclination, that is, before the line is threaded through it, that is the normal position it would take as it is hung, the normal offset position. If this was a split one, you could open it up, lay the line in there, and you wouldn't have any friction on the line. In other words, it would be parallel to the line. That is the normal position.

Mr. Joseph F. Westall: In the first place, Mr. Caughey, you don't put the line up in the derrick and let it drop down. You have it fastened to the top of the spooler before you put it up. Then you put it up and tie it to such a girt as will make the bore through substantially parallel with the line, and then you have the normal position as nearly as you can get it. You can't make it exactly so. The only word that will describe it is "substantially" so, because, if it is not parallel, there will be a wearing on the upper and lower rubbers, and anybody, with common sense, installing one of those things would so hang it, selecting the girt and height and so forth, and relative to where the drum is, so that it would hang freely with the bore through the [455] spooler or the line for the cable to go through to be wound, as nearly as possible, directly

(Testimony of Allen E. Hambly.)

to the drum from the crown block. It depends upon where the crown block is, too, and other things.'

The Court: Then, there is a difference of opinion between the litigants as to what the "normal position" is, is that right?

Mr. Caughey: Not very much. I am merely saying, if you hang——

Mr. Joseph F. Westall: It is impossible for me to see any difference from what counsel says and what I have explained. We are just using words.

The Court: This device is described here in connection with its use and its suspension and all of those elements, is that correct?

Mr. Caughey: Yes.

The Court: And Mr. Westall is assuming a normal position in relation to its installation, is that right?

Mr. Joseph F. Westall: Yes; it is a normal position.

The Court: If it were to hang from that eye, without anything going through it, but the wire going through it, the position may be a little different or would be different, using the words "normal position," then if the line is run through it and attached to the drum?

Mr. Joseph F. Westall: No; I don't think so. When it [456] is in normal position, it is hung so that this bore through there is substantial, parallel with the line of the spooler, in other words, if hung in the position where it will spool. That is the normal position that he speaks of.

(Testimony of Allen E. Hambly.)

The Court: Then, what is the difference between you two gentlemen?

Mr. Caughey: I think I can explain it. Let's assume, taking the model, we have this model hung, hanging freely, suspended freely, and in the position it would normally take.

The Court: The witness has described that.

Mr. Caughey: That is right. Now, let's assume that there is no drilling line threaded there at all, and let us assume that there is a drilling line out here, that is parallel to this normal inclination, that runs along parallel to the center line. So then, if you just took and moved this over and closed it around that parallel drilling line, then the normal position would be as Mr. Westall has said. You get it as close as possible so there won't be any friction, so the line will run through it.

The Court: That normal position will be assumed in connection with the line that goes through it?

Mr. Caughey: Because it is the same inclination as the line.

The Court: But the angle will be different at that particular stage than if it were suspended freely? [457]

Mr. Caughey: No; not if you hang it at the same inclination.

Mr. Joseph F. Westall: I don't think there is any difference in our explanations.

The Court: I think I will take this evidence

(Testimony of Allen E. Hambly.)

for what it is worth; not that I am going to be bound by it or that I am going to consider it. If I determine, after I study this a little more, that no explanation, as you state, is relevant, with the terms used in the claim, that explanations are not relevant—is that correct?

Mr. Joseph F. Westall: Yes.

The Court: That the court is to determine the meaning of those words——

Mr. Caughey: I will agree with your Honor on that. This is merely to assist the court.

The Court: With that observation I made, I will take that evidence to get an idea of what isn't or is meant.

Mr. Joseph F. Westall: I would like to say this, in addition. The drawings of the patent in suit show the hanging and show exactly what he means by the "normal position" in Figure 1. It is suspended up at 15, at the side of the derrick, and hanging down there, and it shows the line going onto the spooler, directly straight up to the crown block, without apparently any friction. And, when I say there might be friction, of course, it is [458] impossible——

The Court: I think that is correct. It does show that, doesn't it?

Mr. Caughey: I think it does show that.

The Court: Let's go ahead and then I will consider it.

Q. (By Mr. Caughey): Will you please answer the question?



(Testimony of Allen E. Hambly.)

A. Could you give me the question?

The Court: You had better ask another question.

Q. (By Mr. Caughey): Will you please state what is your understanding of the words "normal position" as used in Claim 2?

The Court: His opinion, do you mean?

Mr. Caughey: Yes, sir.

Q. Your understanding of the words "normal position" in the Moss patent.

A. I construe that phrase to mean the position which the spooler naturally assumes when freely suspended, without any line passing through the bore or any other restraining force acting on it other than gravity, freely suspended; not when the line is passing through it, because, when the line passes through it, it has to assume the inclination of the line because that line is under tension.

Q. There is a heavy load on that line, is there not?

A. There is always a load of several tons on that line.

The Court: Is that any different—I don't see that [459] that is any different than what this claim recites.

Mr. Caughey: No, except that, if the angle of the line was at a different inclination from the angle that the spooler would naturally take, then, of course, the spooler, if it is around the wire, would assume a different angle than it would if it was freely hung.



(Testimony of Allen E. Hambly.)

The Court: Go ahead. Are there any more questions?

Q. (By Mr. Caughey): I show you the Smith patent, which is in evidence as Defendants' Exhibit E. Are you familiar with that patent, Mr. Hambly?

A. Yes; I am familiar with the patent.

Q. Does that patent show any suspension lines that are attached to the spooler near the top?

The Court: Is that the one with the rollers?

Mr. Caughey: Yes, sir.

A. It shows two suspension lines extending up in the derrick, parallel to each other, attached to a girt some distance up from the spooler.

Q. And where are they attached at their lower ends?

A. At their lower ends, they are attached to two eyes, one on each side of the spooler, midway between the upper and lower ends of the spooler.

Q. From your knowledge of derricks, how far up would you say they were suspended from the place the spooler is positioned in the derrick? [460]

A. About 35 feet.

Q. And do those lines function to suspend the weight of the spooler shown in the Smith patent?

A. Yes.

Q. And do they tend to cause the spooler to naturally assume a vertical position if it is freely suspended?

A. The two points of suspension are on directly opposite sides of the spooler body, on a line extend-

(Testimony of Allen E. Hambly.)

ing through the axis of the body, where the drilling line passes, and, consequently, it would tend to assume a truly vertical position, with the opening between the rollers extending vertically.

Mr. Caughey: In addition to the reason for which the patent was previously introduced, we also introduce it for the purpose of showing the prior art in so far as the use of hanging lines is concerned.

Mr. Joseph F. Westall: If it is introduced as an anticipation, it is objected to because it is not pleaded.

Mr. Caughey: I am introducing it to show the prior art so far as the use of hanging lines is concerned.

Mr. Joseph F. Westall: It certainly cannot be used to invalidate the Moss patent in suit. That was a co-pending application with Moss, which was issued after Moss.

The Court: Is there anything further?

Mr. Caughey: I would like to put in, may your Honor [461] please, just to show the state of the art, three patents to show that there were line controls and spoolers in the art, to give your Honor some idea this was a problem because of the whipping of the line. That problem was solved not by Moss but by Reed. And I would like to put in three prior art patents.

Mr. Joseph F. Westall: Are those patents that were cited in the file wrapper?

(Testimony of Allen E. Hambly.)

Mr. Caughey: Yes; they were patents which I set up in the answer.

Mr. Joseph F. Westall: Those were patents which were considered in the Moss and Reed applications.

The Court: They may be received.

Mr. Caughey: They are Posey No. 1,649,184.

The Clerk: Defendants' Exhibit O.

Mr. Caughey: A patent to Bell, No. 1,566,641.

The Clerk: Defendants' Exhibit P.

Mr. Caughey: And Grill No. 1,907,787.

The Clerk: Defendants' Exhibit Q.

Mr. Joseph F. Westall: Those are three that were cited in both file wrappers of Reed and Moss.

Mr. Caughey: That is all, Mr. Hambly.

### Cross-Examination

By Mr. Joseph F. Westall:

Q. When you defined the normal position of the hanging [462] line with reference to the Moss claim, as you understood it, did you consider the drawings of the Moss patent? Did you look at the drawings of the Moss patent?

A. I looked at the drawings and I also bore in mind certain language in the specification and description of the invention of the Moss patent. In other words, on page 2 of the Moss patent, starting with line 3, it states, "An important feature of this invention is to provide a line controller or guide having an elongate bearing effect and which

(Testimony of Allen E. Hambly.)

is so mounted in the rig that the axis of the free bearing—" I would like to interpose at that point and emphasize the word "free," which, in my opinion, means when the drilling line does not extend through it. That is the only time that it is free. It can't be free if a line extends through it. Continuing to read, "that the axis of the free bearing is substantially coincident or identical with that of the slanting line or cable from the drum 3 so that the line can move in either direction endwise with a minimum of pressure from the controller," that is, to position. "That is, the normal or free and the applied position of the guide is such that no load or pressure, of notice, of the guide is burdened on the line." I believe that is all of that.

Mr. Caughey: Will you read the next paragraph, please?

A. Starting with line 23, "In other words, the invention includes a line controller having a normal or unapplied [463] position such that its elongate bearing means will receive the introduced line 2 substantially free of mutual pressure between the bearing and the line with the result that it is possible to run the line with but little wear on the bearings." My interpretation of the word "normal" in Claim 2 is based on these quoted passages.

Q. And in the light of the drawing? I believe you said that the normal position that the patentee has described is illustrated in the drawings, is it not?

A. Not necessarily.

Q. Well, I think it is.

(Testimony of Allen E. Hambly.)

A. Because the line extends through it and, even if the center of gravity of that spooler was so located with respect to the eye, and that spooler assumed an offset angle position——

Q. That would be a normal position, wouldn't it?

A. That would be its normal position if hung properly.

Q. If it was hung properly, it would have to be, so that the line goes through up to the spooler and spools, without any substantial friction on the bearings——

Mr. Caughey: Are we arguing the case?

Mr. Joseph F. Westall: No. I am asking him if that is not true.

A. May I ask you a question, Mr. Westall, what you mean by "if hung properly"? [464]

Q. If it is hung properly——

A. What can you vary in hanging it?

Q. You vary whatever is in the testimony. It may be a few feet up or any number of feet.

A. If you suspended it?

Q. If you suspended it, so that the line to be spooled will be directed down to the drum.

A. I would like to say this, Mr. Westall, and I am sure it is a correct statement of physical fact, that the normal angular tilt of the axis of the spooler is so that, when you locate that eye with respect to the axis, and when you determine what length the spooler is going to be, at that instant you have determined what its normal suspended position will be and it doesn't matter one bit how



(Testimony of Allen E. Hambly.)

high up you go; you can't cause that to assume a different normal position.

If you brought this line over here, it would tend to hang at that same inclined position until the drilling line—or, when put on the drilling line, it would be straightened up with the line; but you can't change the normal suspended position of that spooler by attaching it at a higher or lower point in the derrick. That is determined by the dimensions of the spooler when it is manufactured.

Mr. Joseph F. Westall: I believe that is all.

Mr. Caughey: That is all. That concludes the defendants' [465] case.

Mr. Joseph F. Westall: I would like to have Mrs. Moss take the stand again.

### PHOEBE E. MOSS

one of the plaintiffs, being recalled, testified as follows, in rebuttal:

The Clerk: You are the Phoebe E. Moss who has hertofore been sworn in this case?

A. That is right.

### Direct Examination

By Mr. Joseph F. Westall:

Q. Mrs. Moss, there has been some testimony about the use of chains, prior to the invention apparently, in a spooler. Do you know anything about the construction, hanging and mode of operation of such chains?      A. Yes.

(Testimony of Phoebe E. Moss.)

Q. Have you ever seen any such chains in use?

A. Yes.

Q. Please state whether or not there was anything resembling a hanging line used with those chains.

A. No; not the ones I saw and I saw a good many, because they didn't require a hanging line.

Q. They were held by weights on the side?

A. That is right, and they were a very light article compared to the present-day spooler. They are a length of [466] chain and they are tied up there, and they were merely to direct that line as well as they could in those days, which was several years ago, and they were not suspended up in the derrick. It wasn't a requirement.

Mr. Joseph F. Westall: You may cross-examine.

### Cross-Examination

By Mr. Caughey:

Q. You were present, were you not, when your husband gave his deposition? A. Yes, sir.

Q. You heard him say that safety lines were required in derricks when weights were suspended?

A. Safety lines are required but that is not a suspension line.

Q. What would happen if one of the side bridles of the chain spooler would break?

A. The natural thing. The chain is light and the weights are so much heavier that they would go to the ground by the law of gravity. The chain, then,

(Testimony of Phoebe E. Moss.)

of course, would fly in the air. They can put a safety line on either side and the safety line can be slack; not a suspension line but a safety line to take care of that falling down into the derrick.

Q. There is frequently pipe hung in the well, is there not? [467]

A. What do you mean?

Q. Pipe that is pulled out of the hole, hanging in the well?

A. That frequently happens in an oil well.

Q. Did you ever see a stand of pipe hung on the side of a well?

A. Stood over on the side of the well; yes.

Q. Did you ever see men working up in the derrick?

A. Yes, sir.

Q. What would happen if the chain broke and the man was working in the derrick and the thing flopped around to hit him? Would he be injured?

A. Well, when the chain was used, the derrick-man worked too high up to be hit by that chain because it is natural a chain will flop down. The man on the floor could be hit with it if the end dropped down far enough.

The Court: What is the use of speculating whether he could get hit and where?

Mr. Joseph F. Westall: Not very much.

Q. (By Mr. Caughey): Your testimony is that you never saw any safety ropes on a chain spooler? Is that your testimony?

A. I have seen many safety lines. I said no hang-

(Testimony of Phoebe E. Moss.)

ing rope to suspend it up in the derrick. It was not used on the old chain; no. [468]

Q. As far as you saw? A. No.

Mr. Caughey: That is all.

Mr. Joseph F. Westall: Mr. Horan.

B. A. HORAN

recalled as a witness on behalf of the plaintiffs in rebuttal, being heretofore duly sworn, testified further as follows:

The Clerk: You were heretofore sworn?

A. Yes, sir.

Direct Examination

By Mr. Joseph F. Westall:

Q. Mr. Horan, I believe in your testimony heretofore given you stated you had long experience in the oil business, working on derricks and so forth, did you not? A. Yes.

Q. How long did that experience continue?

A. I have been working in the field better than 20 years.

Q. Did you ever have any experience in the use of chains in derricks, such as Mrs. Moss has just referred to?

A. I have; and I have gotten steel in my eye and had it extracted, but it never blinded me.

Q. I will ask you this. Do you know whether they had a hanging line to hang that chain in the derrick at any time? [469]

(Testimony of B. A. Horan.)

A. No, sir; we have never had any hanging line with a chain.

Q. And have you seen many of those chains in use?

A. Yes; I used them years ago. That is all we had.

Q. Can you produce anything to show what those links looked like?      A. Yes, sir; I can.

Mr. Joseph F. Westall: I will show this to counsel and the court.

A. They weigh about two pounds apiece.

Q. How large did you say these links are?

A. Three of them would weigh about four pounds, four or five pounds, or something like that. In those days, they made light and heavy rotary chains.

Q. How many links of the chains constituted one of these devices?      A. We used three.

Q. And the drilling line was run between——

A. Through the center.

Q. Through the center?      A. Yes.

Q. And between two rollers of the chain?

A. Yes.

Q. And any whipping caused a striking of this side piece and the flying of sparks, such as you have described, is [470] that correct?

A. Yes; the rollers wore the line considerably and sparks came out, which was dangerous around gas wells or any well that was about to be brought on production, but they always had a short safety



(Testimony of B. A. Horan.)

line on them which come from the ends to the girt. These were three girts high.

Q. Were those slack lines?

A. Yes; they were slack. It was holding them so that, if that should break your two center rollers, if that should break your chain in two, it wouldn't come down and injure a man. In those days, our drums were very narrow and they didn't have much traveling. In other words, your weights would only be a foot and a half off of the ground and, therefore, the safeties would keep it from hitting a man. But, when your rollers are absolutely gone and your wickers on the line, naturally, it has a chance to pull it up and down.

Mr. Joseph F. Westall: We offer in evidence the illustration, apparently, from the California Oil World, page 2, "Six Reasons Why Jeffrey Chain Side Bars Are Extra Strong," as a plaintiffs' exhibit.

The Court: It may be received.

The Clerk: Plaintiffs' Exhibit 31 in evidence.

Q. (By Mr. Joseph F. Westall): I show you a photograph, being Defendants' Exhibit H, of a line spooler and ask you to state, assuming that you did not know anything about the Moss [471] spooler, with your experience, if you were directed to install one of those on the derrick, just how you would proceed.

A. May I demonstrate with the derrick there?

Q. Yes.

Mr. Caughey: What is the object of this testi-

(Testimony of B. A. Horan.)

mony? This witness was on the stand and had an opportunity of giving his testimony when he first got on the stand.

Mr. Joseph F. Westall: It is rebuttal to your testimony where you talked so much about degrees and angles.

The Court: Overruled, if there is an objection.

A. Do you want me to explain this?

The Court: You may explain it, how you would proceed to hang it in the derrick.

A. This particular type of spooler was installed for the Bartholomew Oil Corporation.

Q. (By Mr. Joseph F. Westall): I am talking about any of your experience away back there.

A. Yes. Just a minute and I will tell you.

The Court: Try to be as explicit as you can.

A. Yes. These were put on the line first and then clamped.

Q. (By Mr. Joseph F. Westall): And then what was done?

A. It was pulled up to the third girt and the weights put out from the side arms or cable arms, down the side of the derrick. Now, with the type of unit we had in this derrick, [472] of which there are variations in units—and what I mean by units is draw-works—there is what we call a 50, 75 and 125, which means it has to be brought into the derrick more, one for your driving line and above it is a sand line. That has to be brought inside of your derrick. This is pulled up. There is a variation—

(Testimony of B. A. Horan.)

The Court: Which is pulled up?

A. This spooler is pulled up to your third girt. This hanging line goes up until it hangs freely but this particular spooler couldn't hang the proper way for the simple reason the hanger is in the middle. This eye here, when it is hung, has a tendency to ride on top and on the bottom and wear your core liners or rubbers.

The Court: Out?

A. It was continuously putting in repairs. You will find new lines when they come out are manufactured and they are greased. If a line has been laying out and washed dry, we usually oil it. That is customary for any driller to do. So as far as the angle is concerned, one unit might be in the rig further and a different base rig and a different height rig. It is from the point where it is hung three girts high. If a unit that is in close—you might not have to hang it as high as required for the simple reason of the variation of your unit in the rig to make it hang. And as far as the safety line is concerned, our State laws require it. [473] In other words, it is a good policy for the workmen and you couldn't put—well, this is just one way to hang that spooler as far as weights are concerned. There are two different other ways, which are identical.

The Court: Of which spooler are you talking?

A. The top spooler, this one here. And we used to hang the chains in those days by a triangle with the weight outside and another one, with the tri-

(Testimony of B. A. Horan.)

angle, with the spring on it. But a spooler will never suspend in the air unless it has got a hanging line on it and that hanging line, when it hangs properly, is the top. You couldn't put enough weight on those weights there to hold that spooler up, not at the speed it travels in the hole or out of the hole.

Q. (By Mr. Joseph F. Westall): Let me ask you this question. In installing a spooler like that, would you have any kind of a protractor and carefully measure angles down there or would you use your common sense in hanging it?

A. You don't go to that particular trouble because we are not well educated like that. We hang it the best way where the operator can get the efficiency of that spooler. You can hang it, sure, two girts high. And, if your Honor is to see the thing, you have to drag this and wear your rubbers out. And why wear them out because there is no more line on it? To get results is to put it where it belongs. As far as angles are concerned, the angle comes from that point to be hung normally [474] or freely. When that is unhooked, you can hook it up together.

Q. You were present when Mr. Prehoda testified the other day, were you not?           A. Yes.

Q. And I believe that he said he was connected with the Santa Fe Drilling Company and I believe he spoke of the hanging of a spooler in a derrick at one of those wells. Do you know anything about that?

(Testimony of B. A. Horan.)

A. Why, yes. This particular spooler I had seen is a Patterson-Ballagh spooler. It was a four-rubber or four-section and it had the triangle affair instead of weights. Of course, it has weights which go outside of the derrick but it is still suspended with the hanging line from the top.

Q. I believe that Mr. Prehoda said that one of those wells didn't have suspension. Is that correct?

A. That is what he said.

Mr. Caughey: I don't recall any such testimony. What was that statement?

Mr. Joseph F. Westall: He testified that on one well they didn't have any hanging line and we wanted to show that it would stay in position without a hanging line. I am asking him about what he saw at one of the wells that Prehoda had charge of.

A. This here particular one had a hanging line on it. [475]

Q. It had a hanging line at the top?

A. Absolutely.

Q. And what was that hanging line for?

A. To hang and hold the spooler up.

Q. And to keep it in balanced position?

A. Absolutely.

Q. If you let the hanging line go, it wouldn't stay balanced? A. No.

Mr. Joseph F. Westall: I believe that is all.



(Testimony of B. A. Horan.)

Cross-Examination

By Mr. Caughey:

Q. Mr. Horan, you have worked under a number of different superintendents, haven't you, in the oil fields? A. Yes.

Q. And isn't it a fact that one superintendent will use a structure in one manner and another superintendent will use it in another manner?

A. Due to the fact that the superintendent is very seldom around——

Q. Let's use the driller, then. Isn't it a fact that one driller will use equipment in one manner and another driller will use it in a different manner?

A. What manner do you mean?

Q. I am asking you that question. [476]

A. Just what, for instance?

Q. Well, in the equipment that you use in the oil fields, isn't it a fact that in handling equipment or placing equipment one driller will handle it or place it differently than another?

A. It all depends what kind of equipment and what type of equipment.

Q. Isn't it a fact that you have seen equipment in the field that one superintendent would use differently than another and place differently in the well, the same equipment?

A. The same equipment?

Q. Yes.

A. No; there is only one place to put it.

Q. You don't agree with that?

(Testimony of B. A. Horan.)

A. No; I don't.

Q. You don't agree that a driller, when he gets equipment in the field, will do with it according to his own whims?

A. No. There is a certain place to put that equipment.

Q. That may be so.                   A. Absolutely.

Q. You were not on these Union Oil wells up at Belridge, were you? [477]                   A. No.

Q. And you don't know whether Mr. Reed wanted to be safer than usual and had two lines instead of one on a chain spooler?

Mr. Joseph F. Westall: That is objected to as not proper cross-examination.

The Court: That is asking for a conclusion.

A. That is the safety lines Mr. Reed was talking about, was it?

Q. (By Mr. Caughey): Yes.

A. Yes; the safety lines, as I explained, are safety lines but they are not hung—if it should part, it wouldn't injure anybody.

Q. But wouldn't it make it more safe if you had another line up to the top and had two safety lines?                   A. No.

Mr. Joseph F. Westall: Are you talking about the chains now?

A. Are you speaking of the chains?

Mr. Caughey: Yes.

Q. Why not?

A. Because it is not required; for the simple reason it is light——

(Testimony of B. A. Horan.)

Q. I am not asking whether it is required. Wouldn't it be safer to have two lines than [478] one?

A. No.

Q. You don't think so?

A. No. They are safety lines.

Q. Supposing the lower safety line broke and the chain broke and you had an upper line hanging there, wouldn't that suspend it?

A. If one safety line broke—and it isn't broke. It is there tied tight.

Q. I am asking you to assume you had a lower safety line that was broken for some reason, and assume that the chain broke, and if you had another upper safety line, it would keep it suspended, wouldn't it?

A. Are you speaking of a suspending line?

Q. Yes.

A. There is no suspending line on them.

Q. I am saying if that was a fact, wouldn't that upper line suspended it?

A. I have never seen it.

Q. I am not asking you that. I am asking you if it would do it?

The Court: What difference does it make——

Mr. Caughey: Because he didn't see them, doesn't mean they weren't there.

The Court: ——asking him for his opinion about various matters in relation to it? What difference does it make? [479]

Mr. Caughey: Evidently, he was brought here

(Testimony of B. A. Horan.)

because he knows something about oil well drilling and rigs.

The Court: Go ahead.

Q. (By Mr. Caughey): You can answer that question, can't you?

A. I have never seen any with such lines.

Q. I didn't ask you that. I asked you, with the facts I have stated, wouldn't the upper line suspend——

A. No.

Q. Why not?

A. Because it would fall down.

Q. If it was attached up in the girt here, why wouldn't it suspend it?

A. It would only go so far.

Q. That is the best answer you can give, is it?

A. Because it has never been used. That is the reason why. I have never seen one.

Q. I didn't ask you that question, sir.

Mr. Joseph F. Westall: He is just called upon to speculate.

Q. (By Mr. Caughey): It may be, Mr. Horan, you haven't had an opportunity to have education like some of us but you have been in the oil fields and are a practical oil man, aren't you?

A. Yes. [480]

Q. And, as a practical oil man, you would know that, if you had an eye in the middle on a spooler and you had an eye at the top, it would be better to hang it at the top? You would know that, wouldn't you?

(Testimony of B. A. Horan.)

A. It is the most practical place, on top.

Q. And you would know that, wouldn't you?

A. Yes; for the simple reason of the efficiency of your spooler.

Mr. Caughey: That is all.

### Redirect Examination

By Mr. Joseph F. Westall:

Q. And would you have known that prior to the Moss invention?      A. No.

### Recross-Examination

By Mr. Caughey:

Q. You say you wouldn't have known, prior to the Moss invention, that hanging a weight from the top would cause it to assume an angle of inclination?

A. I would, of my own knowledge, but I have never seen one.

Q. I didn't ask you that. Wait. You would know of your own knowledge if you hadn't seen one, wouldn't you?

A. But I didn't know until Moss invented it.

Q. That isn't an answer to my question. [481]

Mr. Joseph F. Westall: He has answered that he didn't know until Moss made his invention.

The Court: What is the answer?

A. What are you talking about now? What is your last question?

Q. (By Mr. Caughey): My last question, from



(Testimony of B. A. Horan.)

the knowledge you have in the oil fields, regardless of whether you saw a Moss spooler, if the problem was put up to you to hang something in a well, you would know it would be better to hang a wire line rope from the top, wouldn't you?

A. Would I know?

Q. Yes; as a practical oil man.

A. If there is an eye there, yes; if there is no eye there, it would be in the middle.

Mr. Caughey: That is all.

Mr. Joseph F. Westall: I have one more witness.

The Court: I think we will suspend at this time.

Mr. Caughey: May I ask Mr. Westall how long is the witness going to be?

Mr. Joseph F. Westall: Oh, about 10 minutes.

Mr. Caughey: Does your Honor desire to hear any oral statements?

The Court: I think I do. I would like to have an outline of the issues here orally and some argument, and then I think I will want something in writing also, some authorities, [482] following your arguments.

Mr. Joseph F. Westall: Yes, your Honor.

(Thereupon, a recess was taken until 2:00 o'clock p.m.) [483]

Los Angeles, California, Friday, February 20, 1948,  
2:00 P.M.

(Same appearances.)

Mr. Joseph F. Westall: If the Court please, I am going to turn the matter over to my associate counsel, who is my son, and I would like to briefly testify, with your Honor's permission.

JOSEPH F. WESTALL

called as a witness on behalf of the plaintiffs, in rebuttal, being first duly sworn, testified as follows:

Direct Examination

By Mr. Edward F. Westall:

Q. You are one of the attorneys for the plaintiffs in this action, are you not? A. I am.

The Court: Let's get the name in the record.

The Clerk: State your name, please.

The Witness: Joseph F. Westall.

Q. (By Mr. Edward F. Westall): You are one of the attorneys in the action? A. I am.

Q. When were you employed as attorney for the plaintiffs in this case?

A. I was employed, refreshing my recollection by our bills, on or about maybe a day or so before February 8, 1946. [484]

Q. The original complaint in this action was filed July 18, 1946. Will you please state why you waited from the time of your employment, February 8, 1946, until July 18, 1946, before filing the original complaint?

(Testimony of Joseph F. Westall.)

A. Immediately after I was employed to prepare a complaint, I was told by my client that Patterson-Ballagh had repeatedly stated that they wished to settle the case.

Mr. Caughey: That is objected to as calling for hearsay testimony, if your Honor please.

A. No. That is only explaining what I did.

The Court: That is hearsay.

Q. (By Mr. Edward F. Westall): Did you have any——

A. Wait a minute. I immediately telephoned to Mr. Caughey. I explained to Mr. Caughey over the phone many times, and I know his voice—I called his office and, after some delay, I got him on the phone and told him we were getting ready to file a complaint, or we had a complaint filed at that time or ready to file, and then, he says, “Well, don’t file the complaint because we will settle,” he says. And he told me that they would settle. After that, every week or so, I would telephone Mr. Caughey and ask him whether he had—or his client would meet us, telling him we would be glad to come to his office at any time and discuss the matter of settlement, and explaining to him also that my client didn’t have very much money, and I wanted to save the [485] expense of this suit if I possibly could. And Mr. Caughey on each of these instances, which was for a number of weeks, every week or so, up until shortly before the pre-trial, constantly would tell me they would settle, and I said, “If we don’t come to some arrangement, we will file the suit.” And just before I did file the suit, on July

(Testimony of Joseph F. Westall.)

18th, becoming impatient, I called up and told Mr. Caughey that we had the complaint and we must file it because the statute of limitations was running against some of our claim of infringement six years before. Then he said, "Well, you might just as well file it because, after you file it, I believe we can get the parties together and settle it. Maybe that is the only way we can get Mr. Ballagh to come down, because he is a very busy man and travels around a great deal, and I haven't been able to get him and arrange a meeting in the office."

Q. Because of the statements that Mr. Caughey made, you delayed filing the complaint until July 18, 1946, did you?

A. That is correct. That was the sole reason that I did file, because I didn't want to involve my clients in litigation, knowing their financial circumstances.

Q. Did you have any conversation with Mr. Caughey after the filing of the complaint?

A. Yes; I had repeated conferences.

Mr. Caughey: That is objected to as immaterial, after [486] the time of the filing of the complaint, may your Honor please. There might have been some question involving laches but any conversations afterwards, even if they were conversations relative to a settlement, are, obviously, not material.

Mr. Edward F. Westall: I believe they are very important as pertaining to the question of alleged prior use. Up to the time of the pre-trial, there



(Testimony of Joseph F. Westall.)

was no question of any prior use. It was contemplated the action would be settled, apparently, by both sides. These conversations which took place after that time and up to the pre-trial relate to the lack of any defense that was even remotely suggestive of that, and we believe that any alleged prior use was largely a figment of the imagination, and these conversations are at least circumstantial evidence pointing to that fact.

The Court: As I understand, these conversations were between counsel. Do you think that is competent evidence?

Mr. Edward F. Westall: Of course, Mr. Caughey at that time had been employed for a long time and these conversations concerning which the witness will testify occurred in February, I believe, 1947. The complaint was filed in July of the previous year. So counsel was in a position to know his client's case.

The Court: What happened after the complaint was filed I don't think would have any bearing in this matter. Do you?

A. I would like to testify—— [487]

Mr. Caughey: I certainly object, may your Honor please. Your Honor knows very well that frequently counsel settle cases on a nuisance basis. That has nothing to do with the negotiations for a settlement. On that basis or any other basis it is not competent evidence.

A. I do want to testify to this——

Mr. Caughey: I object to your testifying, Mr.



(Testimony of Joseph F. Westall.)

Westall, and I ask a ruling from your Honor before he starts.

A. That is something else.

Mr. Caughey: You are volunteering an answer and you have no right to do so. You are a witness.

A. But there is something I would like to answer.

The Court: Let's dispose of this particular matter first. I don't think it is competent for the witness to testify as to negotiations relating to a settlement after the complaint was filed, that is to say, in relation to the matters that you have brought to the attention of the court. You claim something was said about prior use or something of that kind. I will sustain that objection.

A. Now, if the court please, at no time——

The Court: Just a moment. Do you want to consult with counsel there and see what he should inquire about?      A. I will do that.

(Conference between counsel for the plaintiffs.)

Q. (By Mr. Edward F. Westall): Was there any suggestion [488] during any conference or telephone calls which you had at any time prior to the time of the filing of the complaint regarding defenses such as prior use or any patents or prior publications that allegedly disclosed——

Mr. Caughey: That is objected to as immaterial. It doesn't go to the question of laches. It is solely a question of defenses that some party might have

(Testimony of Joseph F. Westall.)

and it is absolutely immaterial whether we did or did not have defenses which we mentioned or did not mention. If they are talking about laches, that is something else, but, when they begin talking about defenses, that is another question entirely.

The Court: What is your offer of proof? To what are you alluding? Are you trying to point out a statement, by defendants' counsel, prior to the filing of the suit, or what is your purpose?

Mr. Edward F. Westall: It is not only counsel but the defendant himself; and, if he had any defenses, it would seem reasonable he would have said so.

Mr. Caughey: That is conjecture.

Mr. Edward F. Westall: It is just a circumstance which has a bearing upon the evidence, on the credibility of the evidence.

The Court: That is, you claim that Mr. Caughey made representations to you in relation to defenses?

Mr. Edward F. Westall: That is right. [489]

The Court: Or to Mr. Westall, Sr.?

Mr. Edward F. Westall: That, and the complete absence of any defenses.

Mr. Caughey: Am I expected to tell my defenses in the case beforehand?

The Court: Suppose he had told him there was no defense, what bearing would that have on the case if, in fact, there are defenses, legal defenses?

Mr. Edward F. Westall: It would seem it would be an indication that the parties would get together and would settle the case or at least there would be

(Testimony of Joseph F. Westall.)

some reason for discussion over a period of as many years as have elapsed between the time when they first became acquainted with the Moss patent, after Mr. Moss went to them and discussed it with them; and then, considering the length of time from when they received that first advice that Mr. Moss intended to sue, until the time of suit, there was no suggestion of any defense at all. On the contrary, there is already evidence in the case that they contemplated settlement or at least negotiations leading to a settlement, without any suggestion of any prior use or anything of that kind, which they now contend they had all the time. It is a circumstance.

The Court: Isn't it a general rule that negotiations for a settlement are not material, that is, it is not usually permitted? [490]

Mr. Edward F. Westall: I think there is a general rule of that kind but——

The Court: If the conversation had been between Mr. Moss and Mr. Caughey, it is possible that he would have been permitted to have testified, although I am not sure about that. I don't think that negotiations and conversations had between counsel necessarily bind the client.

Mr. Edward F. Westall: Do I understand your Honor's ruling is that the objection is sustained?

The Court: Will you repeat the question, please?

Mr. Edward F. Westall: "Did you have any conversations pertaining to any alleged prior uses, with Mr. Caughey, prior to the filing of the complaint, as

(Testimony of Joseph F. Westall.)

to any alleged defenses of prior use or printed publications or patents or the like?"

Mr. Caughey: The same objection.

The Court: I will sustain that objection. I don't think it is material to this issue. We have the evidence here of just what happened in relation to all of those things.

Q. (By Mr. Edward F. Westall): Is the contract of employment of Westall & Westall, to institute and maintain this action, in writing?

A. Yes, sir.

Q. Will you produce that contract?

A. I have the original.

Mr. Caughey: That is objected to as immaterial. I will [491] accept the statement of Mr. Westall that he was approached, on a certain date, by Mr. Moss and waited until that time for the reasons given. And I would like a chance to reply to that but there is no need of putting the contract of employment in evidence.

Mr. Edward F. Westall: The contract of employment is offered to form a basis for a statement of charges against Mr. Moss, to support our prayer for the allowance of attorneys' fees. There should be some evidence of it, we believe, in regard to what reasonable attorneys' fees would be.

Mr. Caughey: I am sure, when and if there is a judgment here, if the plaintiffs prevail, the court will give you ample opportunity to do that.

The Court: That is a statutory provision, is it not, providing for attorneys' fees, by statute?



(Testimony of Joseph F. Westall.)

Mr. Edward F. Westall: Yes.

The Court: And you don't need a stipulation. Counsels' names appear as attorneys for the plaintiffs in this case. So in that respect there is no question about that. And, if the plaintiffs should prevail, the matter of attorneys' fees will be considered the same as the question of what damages might be allowed to the plaintiffs. That evidence will be timely then.

A. If the court please, may I step down just a moment?

The Court: Yes. Is there anything further?

Mr. Joseph F. Westall: There won't be after this. The statute provides that a reasonable attorneys' fee may be allowed at the time of the entry of judgment, and at the time your Honor directs the judgment, you should allow a reasonable attorneys' fee, and, in order to find out what that reasonable attorneys' fee is, there are two ways to do it. We show our contract with Mr. Moss, show the reasonableness of the charge and show our charges. So this is now an application, as part of the relief, that we at this time be allowed to present figures, or we can present it later if your Honor wishes.

The Court: What I shall do is this. When this matter is concluded this afternoon, I shall set the matter ahead for further testimony, argument or submission or further proceedings, and, if at that time there has been a determination that the plaintiffs prevail, then we will go into the matter of at-



torneys' fees and the matter of damages and other matters.

Mr. Caughey: That matter of attorney's fees works both ways, your Honor, so far as the prevailing party is concerned.

Mr. Joseph F. Westall: That is true.

The Court: Then, it will work both ways. It will apply in both cases if that is a correct version of the statute.

Mr. Joseph F. Westall: That is correct. That is all for the present except the argument.

Mr. Caughey: Inasmuch as I am here alone, may I be sworn [493] to reply, briefly, to what Mr. Westall stated on the stand?

The Court: Yes.

Mr. Caughey: I think I should have that privilege.

#### REGINALD E. CAUGHEY

called as a witness on behalf of the defendants, in rebuttal, being first duly sworn, testified as follows:

Mr. Joseph F. Westall: If this matter is to be continued, why does counsel want to testify now?

Mr. Caughey: I am replying to the statements Mr. Westall made about the telephone conversations.

The Court: I want you gentlemen to know I am going to decide this case on the evidence of the litigants here, as to the merits of the case, rather than any dispute between counsel. I must properly consider some phase here relative to the question of laches, if that is what is involved, but, other

(Testimony of Reginald E. Caughey.)

than that, I don't see any particular need of going into any discussion of a conference between counsel.

The Clerk: What is your name, please?

A. Mr. R. E. Caughey. Mr. Westall did call me on the telephone some period of time before the complaint was filed and indicated that he was going to file a complaint. At that time I told him that there had been some discussion of settlement in the past but that Mr. Ballagh, of the Patterson-Ballagh Corporation, was not disposed to make any settlement except on a nuisance basis, but that he would contact him [494] again and find out. And I say this; Mr. Westall either called me or I called him and I told him that that was the only kind of a settlement we would make, would be on some nuisance basis, where it would be disposed of as far as the costs of litigation or something like that, and that was the extent of the conversation. That is all.

Mr. Joseph F. Westall: May I rebut that, very briefly, after he gets through?

The Court: Will this be the finish?

Mr. Edward F. Westall: Yes.

Mr. Joseph F. Westall: And perhaps I can state it here, being under oath. Mr. Caughey never used the word "nuisance" at all at any time during the conversation. He only said that he would get together and settle.

The Court: All right; that is the end of this line of testimony. Is there anything further on either side?

Mr. Joseph F. Westall: No further testimony.

Mr. Caughey: No, your Honor.

The Court: I would like to have both sides give me as clear-cut a definition, as you can, in as short a time as you can, of the issues in this case for me to consider and the questions of law we can reserve for your treatment in a brief, which I am going to ask you to file. [495]

\* \* \*

### Certificate

I hereby certify that I am a duly appointed, qualified and acting official court reporter of the United States District Court for the Southern District of California.

I further certify that the foregoing is a true and correct transcript of the proceedings had in the above-entitled cause on the date or dates specified therein, and that said transcript is a true and correct transcription of my stenographic notes.

Dated at Los Angeles, California, this 1st day of April, A.D. 1948.

/s/ ROSS REYNOLDS,

Official Reporter.

[Endorsed]: Filed May 29, 1948.

[Title of District Court and Cause.]

### CERTIFICATE OF CLERK

I, Edmund L. Smith, Clerk of the United States District Court for the Southern District of California, do hereby certify that the foregoing pages numbered from 1 to 141, inclusive, contain the original Substituted, Amended and Supplemental Complaint, etc., filed August 21, 1946; Answer; Stipulation and Order for filing Substituted, Amended and Supplemental Complaint; Substituted, Amended and Supplemental Complaint filed Oct. 6, 1947; Answer to the Substituted, Amended and Supplemental Complaint; Stipulation as to use of Copies of Patents; Substituted, Amended and Supplemental Complaint filed Feb. 4, 1948; Defendants' Answer to Substituted, Amended and Supplemental Complaint; Order of the Court Recording Proceedings on Pre-Trial February 3, 1948; Opinion; Plaintiffs' Proposed Findings of Fact and Conclusions of Law; Objections to Proposed Findings and Conclusions; Plaintiffs' Proposed Findings of Fact and Conclusion of Law Lodged Sept. 18, 1950; Defendants' Proposed Findings and Conclusions in Accordance with the Court's Request; Memorandum on Objections to Findings and Conclusions; Findings of Fact and Conclusions of Law; Judgment; Notice and Motion to Amend Judgment; Order on Motion to Amend Judgment; Amended Interlocutory Judgment; Notice of Appeal; Order Under Rule 73(g); Designa-

tion of Record on Appeal and Stipulation and Order Extending Time to Docket Appeal which, together with Depositions of Perry M. Moss and James C. Ballagh, Copy of Reporter's Transcript of Proceedings on February 17, 18, 19 and 20, 1948, and original plaintiffs' exhibits 1, 1-A, 2 to 9, inclusive, 10A to 10N, inclusive, 11 to 16, inclusive, 16A, 17, 19, 19A, 20 to 28, inclusive, 30 and 31 and original defendants' exhibits A to Q, inclusive, transmitted herewith, constitute the record on appeal to the United States Court of Appeals for the Ninth Circuit.

I further certify that my fees for preparing and certifying the foregoing record amount to \$2.00 which sum has been paid to me by appellants.

Witness my hand and the seal of said District Court this 7th day of February, A.D. 1951.

[Seal]

EDMUND L. SMITH,  
Clerk.

By /s/ THEODORE HOCKE,  
Chief Deputy.



[Endorsed]: No. 12849. United States Court of Appeals for the Ninth Circuit. Patterson-Ballagh Corporation, a Corporation, and Byron Jackson Co., a Corporation, Appellants. Perry M. Moss and Phoebe E. Moss, Appellees. Transcript of Record. Appeal for the United States District Court for the Southern District of California, Central Division.

Filed February 9, 1951.

/s/ PAUL P. O'BRIEN,  
Clerk of the United States Court of Appeals for  
the Ninth Circuit.

United States Court of Appeals  
for the Ninth Circuit

No. 12849 .

PATTERSON-BALLAGH CORPORATION, a  
California Corporation, and BYRON JACK-  
SON CO., a Delaware Corporation,

Defendants-Appellants,

vs.

PHOEBE E. MOSS and PERRY M. MOSS,

Plaintiffs-Appellees.

CONCISE STATEMENT OF POINTS  
UNDER RULE 19(6)

Now come the appellants, by their attorneys, and in accordance with the provisions of Rule 19(6) of this Court submit the following as a concise statement of points on which they intend to rely:

1. The District Court erred in paragraph II of its Amended Interlocutory Judgment and in paragraph 5 of its Conclusions of Law in holding that claims 2 and 7 of patent 2,190,880 are good and valid in law.

2. The District Court erred in paragraph III of its Amended Interlocutory Judgment and in paragraph IX of its Findings of Fact in holding that the defendants infringed claim 2 of patent 2,190,880 by manufacturing and selling wire line guides or spoolers as shown in plaintiffs' exhibit 10-e, page 1948 thereof.

3. The District Court erred in paragraph III of its Amended Interlocutory Judgment and in paragraph IX of its Findings of Fact in holding that the defendants infringed claim 2 of patent 2,190,880 by selling wire line guides or spoolers with the knowledge and intent that the purchasers and users thereof would hang the same so as to perform the function specified in said claim 2.

4. The District Court erred in its Opinion dated February 21, 1950, in interpreting the word "substantially" in claim 2 of patent 2,190,880 so as to include the angle of inclination assumed by defendants' two-section, four-section and six-section wire line guides.

5. The District Court erred in failing to hold that, to one skilled in the art to which the patent in suit pertains and to a practical man in the oil fields, it was obvious to suspend a wire line guide from an eye eccentric to its axis and adjacent the top of the guide for the purpose of minimizing friction between the wire line guide and the wire line threaded through the same.

6. The District Court erred in failing to hold that the Reserve Oil Company, subsequent to purchasing wire line guides from Patterson-Ballagh Corporation on July 15, 1936, hung one of said wire line guides in an oil well derrick and with the wire line guide suspended by hanging lines as shown in defendants' exhibit K, a photograph taken by J. C. Ballagh on August 5, 1936.

7. The District Court erred in its Opinion dated February 21, 1950, in holding that the length of the hanging line affected the angle of inclination of defendants' wire line guides or the wire line guide of claim 2 in suit.

8. The District Court erred in holding in its Finding of Fact VIII that device or devices manufactured, sold or used by others prior to the date of invention by Perry M. Moss did not include the subject matters of claims 2 and 7.

9. The District Court erred in assuming in its Opinion dated February 21, 1950, without supporting evidence, that suggestions to Patterson-Ballagh Corporation to hang its wire line guides from an eye at the top of the spooler originated from those who had seen or heard of the Moss wire line guide as covered by claim 2.

10. The District Court erred in holding in its Opinion dated February 21, 1950, that the patentee Moss was diligent in reducing the invention of claims 2 and 7 to practice.

11. The District Court erred in holding in its Opinion dated February 21, 1950, that the patentee Moss reduced the invention of claims 2 and 7 to practice in November, 1936.

12. The District Court erred in failing to hold that the patentee Moss was restricted to the date of April 5, 1937, as the date of invention of claims 2 and 7 of the patent in suit.

13. The District Court erred in failing to hold that Smith patent 2,211,299, defendants' exhibit E, has a date of invention as to the disclosure therein of January 4, 1937, and that said date of disclosure is prior to the date of invention of the patent in suit and discloses in part hanging lines attached to the top of the wire line guide which function to support the wire line guide and to cause the same to hang substantially without load of the wire line guide on the wire line threaded through it.

14. The District Court erred in failing to hold that John E. Reed, an employee of the Union Oil Company, caused to be manufactured and used a wire line guide in the early part of 1936 in an oil derrick on Belridge No. 20 well of the Union Oil Company and that said wire line guide was suspended by hanging lines as shown in defendants' exhibit B, which hanging lines functioned to support the wire line guide and to cause the same to hang substantially without load of the wire line guide on the wire line threaded through it.

15. The District Court erred in failing to hold that the patent in suit was invalid as to claims 2 and 7 thereof because the patentee Moss did not comply with the provisions of § 33 of Title 35 of the United States Code as to sufficiency of the disclosure in the specifications and as to definiteness of the claims in issue.

16. The District Court erred in failing to hold claims 2 and 7 of the patent in suit invalid and claim 2 not infringed.



17. The District Court erred in paragraph VII of its Judgment in reserving the issues of wilful infringement and attorneys' fees.

Dated this 20th day of February, 1951.

LYON & LYON,

/s/ REGINALD E. CAUGHEY,

/s/ LEONARD S. LYON, JR.,

Attorneys for Appellants.

Receipt of copy acknowledged.

[Endorsed]: Filed February 21, 1951.

---

[Title of Court of Appeals and Cause.]

APPELLANTS' DESIGNATION OF PRINTED  
RECORD ON APPEAL

Now come the appellants in the above-entitled appeal and designate the following portions of the record on appeal material to a consideration of the appeal and to constitute the printed record on appeal, pursuant to Rule 19(6) of the Rules of Practice of the United States Court of Appeals for the Ninth Circuit:

1. Substituted Amended and Supplemental Complaint (Last before trial);
2. Defendants' Answer to Substituted Amended and Supplemental Complaint (Last before trial);
3. Stipulation as to use of copies of patents, dated September 16, 1947;

4. Opinion of Court, filed February 21, 1950;
5. Findings of Fact and Conclusions of Law proposed by plaintiffs, first filed February 28, 1950; rewritten and filed April 28, 1950;
6. Defendants' Objections to Findings and Conclusions proposed by plaintiffs, filed March 6, 1950;
7. Court's Memorandum on Objections to Findings and Conclusions, dated September 15, 1950;
8. Findings of Fact and Conclusions of Law made by Court and dated September 15, 1950;
9. Judgment of Court dated September 15, 1950, and filed September 18, 1950;
10. Amended Interlocutory Judgment dated October 13, 1950, and filed October 16, 1950;
11. Notice of Appeal dated November 14, 1950;
12. Order Extending Time to Docket Appeal, dated December 21, 1950;
13. Stipulation and Order Extending Time to Docket Appeal, dated January 25, 1950;
14. The following portions of the reporter's transcript of evidence:

\* \* \*

15. The following plaintiffs' and defendants' documentary exhibits shall be included in a Book of Exhibits, ten copies of which shall be printed:

Plaintiffs' Exhibits:

1, 2, 6, 7, 8, 9, 10-e (page 1948 thereof), 13, 14, 15, 16 (page of May 16, 1936), 17, 19, 20, 24, 25, 26, 30 and 31.

Defendants' Exhibits:

A (pages 134 and 135), B, C, D, E, F, G, H, I, J, K, L, M, O, P and Q.

16. Concise Statement of Points under Rule 19(6) ;

17. This designation.

18. The following exhibits, which are to be considered as physical exhibits, are material to the appeal:

Plaintiffs Exhibits:

3, 4, 5, 10-a to 10-n with the exception of 10-e, 11, 12, 21, 22, 23, 27 and 28.

(Note: Plaintiffs' exhibits 18 and 29 were withdrawn from evidence.)

Defendants' Exhibit:

N.

Dated this 20th day of February, 1951.

LYON & LYON,

/s/ REGINALD E. CAUGHEY,

/s/ LEONARD S. LYON, JR.,  
Attorneys for Appellants.

Receipt of copy acknowledged.

[Endorsed]: Filed February 21, 1951.



No. 12849.

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

---

PATTERSON-BALLAGH CORPORATION, a corporation, and  
BYRON JACKSON Co., a corporation,

*Appellants,*

*vs.*

PERRY M. MOSS and PHOEBE E. MOSS,

*Appellees.*

---

## OPENING BRIEF FOR APPELLANTS.

---

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PAUL P. O'BRIEN





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No. 12849.

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

---

PATTERSON-BALLAGH CORPORATION, a corporation, and  
BYRON JACKSON Co., a corporation,

*Appellants,*

*vs.*

PERRY M. MOSS and PHOEBE E. MOSS,

*Appellees.*

---

## OPENING BRIEF FOR APPELLANTS.

---

This is an appeal from the amended interlocutory judgment [R. 91] of the District Court for the Southern District of California, Central Division, adjudging Moss patent 2,190,880, issued February 20, 1940, valid as to claims 2 and 7 and infringed as to claim 2 by appellants, defendants below. Said claims are the only claims in issue and no cross-appeal has been taken by appellees from the amended interlocutory judgment adjudging that the appellants have not infringed claim 7. The question of the validity of said claims and the infringement of claim 2 by appellants is raised by the notice of appeal [R. 94].

## Jurisdiction.

Jurisdiction to review the amended interlocutory judgment of the District Court is conferred by Section 1292(4) of Title 28, U. S. C. The amended interlocutory judgment was entered on October 16, 1950 [R. 93]. The notice of appeal was given and filed on November 14, 1950 [R. 94]. This is within the thirty-day period provided for in Rule 73 of the Rules of Civil Procedure (Title 28, U. S. C., Rule 73(a)), and within which a notice of appeal must be filed.

Jurisdiction over the subject matter was conferred upon the court below at the time the action was filed by Section 41(7) of Title 28, U. S. C. and Section 371(5) of Title 28, U. S. C. Jurisdiction of District Courts of all actions arising under the patent laws is now conferred by Section 1338 of Title 28, U. S. C., which has superseded said sections. Jurisdiction over the defendants was obtained by the provisions of Section 109, Title 28, U. S. C., now superseded by Section 400(b) of said Title.

## Statement of the Case.

The action was originally filed by the patentee Perry M. Moss against Patterson-Ballagh Corporation, a California corporation. Subsequent to the filing of the action and prior to the trial, the patentee Moss assigned said patent, together with the right to recover for past infringement, to his wife Phoebe E. Moss by instruments in writing dated January 16, 1948, Pltfs. Ex. 14 [R. 530], and dated February 4, 1948, Pltfs. Ex. 15 [R. 532]. The patentee Perry M. Moss, notwithstanding said assignments, has been carried as a nominal plaintiff and is one of the appellees herein.

Subsequent to the filing of the action, Byron Jackson Co., a Delaware corporation, with a principal place of business at Los Angeles, California, acquired all of the stock of Patterson-Ballagh Corporation and said corporation was dissolved effective December 3, 1946 [R. 5], Byron Jackson Co. assuming the liabilities for infringement of the Moss patent in suit and being made a party-defendant. Patterson-Ballagh Corporation remained as a defendant and is an appellant herein. The issues as tried were framed by the substituted, amended and supplemental complaint [R. 3] and defendants-appellants' answer thereto [R. 9]. Bryron Jackson Co., subsequent to the dissolution of Patterson-Ballagh Corporation, continued to manufacture and sell devices which are charged to infringe claims 2 and 7 of the Moss patent. For all practical purposes the appellant is Byron Jackson Co. and the appellee is Phoebe E. Moss.

The issues raised by the pleadings are the validity of claims 2 and 7 of the Moss patent, the infringement thereof, and laches by the appellees in bringing the action. This latter defense, raised by paragraph XXV of the answer [R. 15] was withdrawn at the trial. The issues of validity and infringement were considered by the trial court and determined adverse to appellants. They are the primary issues presented on appeal.

#### **Patent in Suit.**

The patent in suit Ex. 1 [R. 517] relates to a wire line guide or controller for oil well rigs. In drilling oil wells and also in operations subsequent to completion of the wells, it is necessary to lower strings of pipe and other material into the well bore and also to lift the same therefrom. This is accomplished by taking the free end of a



wire cable, which has been wound around a cylinder drum on the derrick floor, and reeving it through a pulley on the crown block located at the top of the derrick and thereafter attaching the free end to a traveling block which is in turn attached to the object to be raised or lowered into the well bore, for example, a section of drill pipe. Such operations admittedly were common long prior to the invention of the patent in suit. One of the problems involved, particularly when the wire cable was not under tension, was the lateral whipping of the cable between the crown block and the cylinder drum. This lateral whipping prevented the cable from being truly wound around the drum, causing chafing and breaking of the wire strands of the cable, which is expensive. The elimination or substantial elimination of this lateral whipping is what the patent in suit is directed to, as clearly shown by lines 3-24, col. 1, p. 1 of the patent in suit [R. 517].

To accomplish this result, the patent in suit discloses in the drawings and describes in the specifications an elongated guide or controller, which is also called a spooler by the trade. In view of the fact that the trial judge has designated said devices as spoolers in his opinion [R. 20], we will hereafter so refer to them. The spooler, as shown by Fig. 3 of the Moss patent, and which is mounted 20 to 30 feet above the derrick floor, includes a pair of elongated semicylindrical iron shell sections 4 and having therein rubber bearing surfaces 6 which have an axial bore therein for the reception of the wire cable 2. Arms 17 fixedly attached to the spooler are provided, to which are attached bridles 15 and 16 which are reeved over pulleys 20 and to which are attached equal weights 21. The bridles and attached counterweights function to stabilize the spooler as to lateral motion. A hanging or suspension line 14 is

attached to an eye 13 at the top of the spooler and eccentric to the longitudinal axis of the spooler and with the other end being attached to a girt on the derrick.

The object of having the hanging or suspension line 14 attached as shown in Fig. 3 of the Moss patent is clearly explained in the specifications, p. 2, col. 1, lines 73-75, col. 2, lines 1-12, which read as follows:

“\* \* \* The shroud attachment is made in such a position in the rig that the suspended shell 4 will be in a position as to axially coincide with the slanting line 2 running from the top pulley P to the drum 3; that is so that the shell 4 and the cable line have a common coaxial position tangent to the drum. In other words, the draw-line shell 4 is hung with its center of gravity on the axis of a given line 2 and with its axis normally, that is while free, substantially coincident with the axis of the introduced cable body. In such position the shell 4 is balanced to tilt in a vertical plane on a transverse axis through its center of gravity and does not impose noticeable resistance on the line to hold its own obliquity.”

Claims 2 and 7 in issue are combination claims. With the exception of the eye 13 and the hanging line 14 causing the spooler to be suspended as described above, all of the elements described in the specifications and covered by the claims in issue were admittedly old in the art and in use in the operation of spoolers prior to the Moss invention. The trial court determined in its opinion [R. 52] that Moss conceived his invention on May 16, 1936 and reduced it to practice in November, 1936 [R. 53]. The application for the patent in suit was filed January 21, 1938.

The court in considering whether there was invention in the combination claims, applied the test stated in the opinion [R. 23], *i.e.*, whether there was any invention in hanging a spooler at the top.

### Alleged Infringing Spoolers.

The spoolers manufactured and sold by appellants and charged to be infringed are shown in Pltfs. Ex. 10-E [R. 524]. The appellants' spoolers, as shown by Ex. 10-E, are manufactured in various lengths. The 2-section guide referred to in Ex. 10-E contains two interchangeable rubber filler blocks and the length of the shell is in accordance. The 4-section spooler contains four interchangeable rubber filler blocks and the 6-section spooler contains six interchangeable rubber filler blocks. The lengths of the spooler shells are in accordance with the number of rubber filler blocks therein. The trial court in finding of fact IX [R. 85] found that all of the spoolers shown in Ex. 10-E, regardless of the number of interchangeable rubber filler blocks therein or the length of the spoolers, infringed claim 2 of the Moss patent.

The appellant Patterson-Ballagh Corporation in July, 1936, began the manufacture and sale of spoolers substantially the same as those shown in Ex. 10-E. Said spoolers are shown in the photograph Ex. H [R. 555]. They are substantially the same as the spoolers shown in Fig. 2 of the drawings of Reed patent 2,238,398 [R. 518] and under which Patterson-Ballagh Corporation was licensed prior to any knowledge of Moss or the Moss invention, said license being issued in May, 1937 [R. 361]. The manufacture and sale by Patterson-Ballagh Corporation of spoolers as shown in Ex. H and the license taken under

the Reed application and subsequently issued patent, caused the trial court to state in its opinion [R. 23]:

“\* \* \* The spooler originally manufactured by the defendants is similar to that shown in the Reed patent; there is no contention by plaintiffs that this device, with the eye for the hanging line in the middle, infringes their patent.

“Counsel in their argument have stated, and the Court agrees, that the Reed application shows each and every element of the Moss patent, except that in the Moss patent the suspension, or hanging line of the spooler is attached to an eye at the top instead of, as in the Reed patent, an eye at the middle, or longitudinal center. \* \* \*”

Appellant Patterson-Ballagh Corporation, without knowledge of Moss or the invention covered by the Moss patent in suit, in July, 1937 [R. 391] placed an additional eye adjacent the top of its spoolers and eccentric to the longitudinal axis thereof and attached a hanging line thereto. The spoolers manufactured and sold by appellants subsequent to July, 1937, and until October, 1946, otherwise continued to be substantially the same as the spoolers shown in Pltfs. Ex. 26 [R. 541].

#### **Findings and Conclusions of the Trial Court.**

The trial court, after proposed findings and conclusions had been submitted by counsel for appellees [R. 72] and after objections thereto had been made by counsel for appellants [R. 65], filed its memorandum on said objections [R. 79] and thereafter entered its findings of fact and conclusions of law [R. 82]. In its findings and conclusions dated September 15, 1950, the court found in finding VII [R. 84] that Moss was the sole inventor of

the subject matter covered by claims 2 and 7 of the Moss patent and in finding IX [R. 85] that the appellants had manufactured and sold devices containing all of the structural elements of claim 2 of said patent and with the knowledge and intent that the users thereof would hang the same so as to perform the functions specified in said claim. The conclusions of law [R. 86] held claims 2 and 7 valid in conclusion V and held claim 2 infringed in conclusion VII [R. 87]. In finding XIII [R. 86] the court reserved the questions of wilful infringement and attorneys' fees until after the filing of the report of the special master and said reservation was incorporated into the amended interlocutory judgment, paragraph VII [R. 93]. The original judgment [R. 89] was signed by the court at the same time as the findings and conclusions, *i.e.*, September 15, 1950. Said judgment was subsequently amended [R. 91] and it is from this amended interlocutory judgment that the present appeal was taken.

### Questions on Appeal.

The questions involved in this appeal are:

1. Whether the spooler claimed in claims 2 and 7 of the Moss patent in suit constitutes invention and more specifically whether it is invention to suspend a spooler from an eye at the top of the spooler and eccentric to the longitudinal axis thereof by a line attached to the derrick so as to cause the spooler to assume a position that will axially coincide with the wire cable threaded through the spooler.

Raised by point 1 of appellants' concise statement of points under Rule 19(6) [R. 509] and by the appeal from the amended interlocutory judgment, including paragraph II thereof [R. 92, 94].



2. Whether the claims in issue sufficiently define the invention thereof as required by the provisions of 35 U. S. C., Section 33.

Raised by point 15 of concise statement of points under rule 19(6) [R. 512].

3. Whether the “2-section guide”, “4-section guide” and “6-section guide” manufactured and sold by appellants, either individually or collectively, infringe claim 2 of the Moss patent in suit, Pltfs. Ex. 1 [R. 517].

Raised by points 2 and 3 of the concise statement of points under rule 19(6) [R. 509, 510] and by appeal from the amended interlocutory judgment, including paragraph III thereof [R. 92, 94].

4. What is the date of the patentee Moss’ reduction to practice of the invention covered by the claims in issue and was said patentee diligent in reducing said invention to practice?

Raised by points 10, 11 and 12 of concise statement of points under rule 19(6) [R. 511].

5. Can the trial court reserve the issues of wilful infringement and attorneys’ fees, as provided for in paragraph VII of the amended interlocutory judgment, which amended interlocutory judgment is otherwise final except as to an accounting?

Raised by point 17 of the concise statement of points under rule 19(6) [R. 513] and by the appeal from the amended interlocutory judgment, including paragraph VII thereof [R. 93, 94].

### Specification of Errors Relied Upon.

Appellants rely on the errors specified in their concise statement of points under rule 19(6) [R. 509-513]. We have consolidated and restated these errors in furtherance of the argument of the case hereinafter presented.

1. The district court erred in holding the patent in suit, and particularly claims 2 and 7 thereof, good and valid in law and that Perry M. Moss was the sole inventor thereof (finding VII [R. 84], conclusion V [R. 87], judgment paragraph II [R. 92]) because:

(a) It was obvious to one skilled in the art to which the patent pertains, including a practical man in the oil fields, to suspend a spooler from an eye at the top of the spooler eccentric to the longitudinal axis thereof so that the suspended shell would be in a position so as to axially coincide with the wire line threaded through the spooler [point 5, concise statement of points, R. 510];

(b) Spoolers manufactured, sold and used, prior to the date of invention of the patentee Moss, by J. E. Reed, the Reserve Oil Company and Patterson-Bal-lagh Corporation, included the subject matter of claims 2 and 7 under the scope given said claims by the trial court [points 6, 8 and 14, concise statement of points, R. 510-512];

(c) Smith patent 2,211,299, Defs. Ex. E [R. 551] has a constructive date of invention prior to the date of invention of the patentee Moss and describes and claims a hanging or suspending line attached to eyes eccentric to the longitudinal axis of the spooler dis-

closed therein to cause the same to hang substantially without load of the spooler on the wire cable threaded through it [point 13, concise statement of points, R. 512];

(d) The patentee Moss failed to comply with the provisions of Section 33 of Title 35, U. S. C., in that the patent fails in the specifications to sufficiently disclose and describe the invention claimed and fails in claims 2 and 7 thereof to definitely claim the invention [point 15, concise statement of points, R. 512].

2. The district court erred in holding claim 2 of the patent in suit to be infringed by appellants' spoolers as pictured in Pltfs. Ex. 10-E [R. 524; finding IX, R. 85; conclusion VII, R. 87; judgment paragraph III, R. 92], because:

(a) Appellants' 2-section, 4-section and 6-section spoolers pictured in Pltfs. Ex. 10-E [R. 524] had such an angle of inclination when suspended by the hanging lines thereof that they did not axially coincide with the wire cable threaded therethrough nor were said spoolers substantially without load of the spoolers on said wire cable, as included in claim 2 [point 4, concise statement of points, R. 510];

(b) The spooler shown in Defs. Ex. K [R. 568] and used in a Reserve Oil Company derrick as early as August 5, 1936 [R. 386, 387] was suspended by the hanging line shown in Ex. K, and prior to the date of invention of the patentee Moss, which would preclude claim 2, and particularly the word "substantially" therein, from being given a scope which would cause appellants' spoolers to infringe [point 6, concise statement of points, R. 510];

(c) Smith patent 2,211,299, Defs. Ex. E [R. 551], having a constructive date of invention prior to the date of the Moss patent, discloses hanging lines attached to the top of a spooler which has a wire cable threaded therethrough and which hanging lines function to support the spooler and to cause the same to hang at such an angle of inclination with respect to a wire cable threaded therethrough as to preclude claim 2, and particularly the word “substantially” therein, from having a scope which would cause appellants’ spoolers to infringe [point 13, concise statement of points, R. 512];

(d) John E. Reed, an employee of the Union Oil Company, in the early part of 1936 and prior to the date of invention of the patent in suit, caused to be manufactured and used in an oil derrick of Belridge No. 20 well of the Union Oil Company a spooler which was suspended by hanging lines as shown in Defs. Ex. B [R. 546] and which hanging lines functioned to support the spooler and to cause the same to have an angle of inclination relative to the wire cable threaded therethrough which would preclude claim 2, and particularly the word “substantially” therein, from having a scope which would cause appellants’ spoolers to infringe [point 14, concise statement of points, R. 512];

(e) The appellants, although manufacturing and selling spoolers, as pictured in Pltfs. Ex. 10-E, do not use the same in derricks in conjunction with wire cables so as to perform the function specified in claim 2 and made an integral part thereof [point 3, concise statement of points, R. 510].

3. The district court erred in holding in its opinion dated February 21, 1950 [R. 53] that the patentee Moss reduced the invention of claims 2 and 7 to practice in November, 1936; and further holding in its opinion [R. 54] that there was no lack of diligence by the patentee Moss in reducing the invention to practice subsequent to Moss' date of conception, found by the court to be May 16, 1936 [R. 52], because:

(a) The construction of the Moss spooler was not completed in November, 1936 and was not tested in a derrick to perform the function set forth in claim 2 until April 5, 1937 [points 11 and 12, concise statement of points, R. 511];

(b) The patentee Moss between the date of conception as found by the court, *i. e.*, May 16, 1936, and November, 1936 made no attempt whatsoever to reduce the invention to practice and thereafter from November, 1936 to April 5, 1937 made no attempt to test the Moss spooler under operative conditions to determine whether said spooler would perform the functions specified in claim 2 [points 10, 11 and 12, concise statement of points, R. 511].

4. The district court erred in its opinion dated February 21, 1950 in apparently holding [R. 56] that the length of the hanging line affected the angle of inclination of defendants-appellants' wire line spooler or the spooler covered by claim 2 because it is obvious that a line from a spooler and at the top thereof eccentric to



the longitudinal axis which would cause the spooler to assume an angle of inclination from the vertical may be of any given length without affecting the angle of inclination [point 7, concise statement of points, R. 511].

5. The district court erred in apparently assuming in its opinion dated February 21, 1950 [R. 44, 45] that suggestions to Patterson-Ballagh Corporation to hang its spoolers from an eye at the top originated from those who had heard of or seen the Moss spooler because there is no testimony in the record nor any documentary or physical exhibits which would support any such assumption or holding of the trial court.

6. The district court erred in reserving in paragraph VII of the amended interlocutory judgment [R. 93] and in finding XIII [R. 86] the issues of wilful infringement and attorneys' fees because:

(a) Section 70 of Title 35, U. S. C. governs the power of the trial court to award treble damages for wilful infringement and to award attorneys' fees to the prevailing party. The evidence before the court, under the established law interpreting Section 70, compels a finding that there was no wilful infringement and that the court in its discretion should not award any attorneys' fees to appellees. It should be noted that the amended interlocutory judgment was entered before the decision of this court in *Park-In Theatres, Inc. v. Perkins et al.*, 190 F. 2d 137.

## ARGUMENT.

### The Disclosure of Moss Patent 2,190,880.

The patent in suit, Pltfs. Ex. 1 [R. 517], discloses in the drawings and specifications an elongated spooler 4 having bearings 6 therein which are preferably of rubber. Arms 17 are attached on each side of the shell and converge outwardly to bars 18 to which are attached side bridles. These side bridles 15 and 16 are reeved over pulleys 20 on the derrick. Counterweights 21 are attached to the ends of the side bridles. The rubber bearings are grooved at 7 to receive the wire line or cable 2 running from a pulley on the crown block to the cylinder drum 3 on the derrick floor.

It was common in the art prior to the Moss invention to use a rotary chain as a spooler [R. 107, 118, 315-321] for the purpose of endeavoring to eliminate the lateral whip from the wire cable. This chain spooler had the wire line threaded through the center link of the chain and to the ends of the chain were attached side bridles which were reeved over pulleys on the derrick and to the ends of which were attached counterweights, similar to the manner shown in Fig. 2 of the drawings of the patent in suit. These chain spoolers were not satisfactory because, although eliminating some of the vibrations of lateral whipping, they caused the wire cable to become frayed or broken and the metal parts thrown therefrom and the sparks created a danger to workers, as clearly stated by the trial court in its opinion [R. 22].

The patentee Moss, furthermore, did not contribute the elongated spooler to the art. Prior to the reduction to practice of the invention of the claims in issue, determined

by the court in its opinion [R. 53] to be November, 1936, the appellant Patterson-Ballagh Corporation had manufactured and sold elongated spoolers. One of these is shown in the photograph Defs. Ex. H [R. 555]. Spoolers, such as shown in Ex. H, were sold by Patterson-Ballagh Corporation to Reserve Oil and Gas Company in July, 1936, as shown by the orders and invoices Defs. Ex. I [R. 557-561] and Defs. Ex. J [R. 562-567]. The witness J. C. Ballagh produced said exhibits and identified them and testified as to the manufacture and sale by Patterson-Ballagh [R. 380-383]. Said witness also identified a photograph of one of these spoolers hung in the derrick of a well of the Reserve Oil Company [R. 385, 386], which photograph is in evidence as Defs. Ex. K [R. 568].

Spoolers as shown in Ex. K had the hanging line attached to an eye at approximately the longitudinal middle thereof when sold. However, as used by the Reserve Oil Company, as shown in Ex. K, the spooler was suspended by hanging lines attached to eyes at the top of the spooler. The patentee Moss admittedly saw a Patterson-Ballagh spooler in a well derrick just prior to Christmas in 1936 and his description of the same is in accordance with the testimony of Mr. Ballagh and Ex. K. The patentee Moss admitted [R. 246] that said spooler was substantially the same as that shown in Fig. 2 of the drawings of the Reed patent [R. 518].

The application for the patent in suit was filed January 21, 1938 and in view of Moss' knowledge of the chain spooler with accompanying bridles and counterweights and Moss' knowledge of the Patterson-Ballagh elongated spooler, Ex. K, having rubber bearings therein, he neces-

sarily included in claim 2 a suspension means or hanging line connected to the shell body at a point eccentric to the longitudinal axis and adjacent the top of the spooler. He also included therein suspension means, *i. e.*, a hanging line, to support the spooler in a position inclined from the vertical so that when suspended it would be substantially parallel and contiguous to the wire cable. No attempt was made to broadly claim a spooler having an eye at the top eccentric to the major axis and with a hanging line attached thereto and with the other end attached to a derrick to cause the spooler to assume an angle of inclination from the vertical.

That claim 2 as worded was in accordance with the contribution which the patentee thought he made to the art is clearly shown by reference to the language of the specifications, p. 2, col. 1, lines 3-10, Pltfs. Ex. 1 [R. 517], reading as follows:

“An important feature of this invention is to provide a line controller or guide having an elongate bearing effect and which is so mounted in the rig that the axis of the free bearing is substantially coincident or identical with that of the slanting line or cable from the drum 3 so that the line can move in either direction endwise with a minimum of pressure from the controller. \* \* \*”

and p. 2, col. 1, lines 73-75 and col. 2, lines 1-4, reading as follows:

“\* \* \* The shroud attachment is made in such a position in the rig that the suspended shell 4 will be in a position as to axially coincide with the slanting line 2 running from the top pulley P to the drum 3; that is so that the shell 4 and the cable line have a common coaxial position tangent to the drum.  
\* \* \*”

Counsel for the appellees made it clear during the trial and under questioning by the court that the suspension means or hanging line, attached to an eye adjacent the top of the spooler and eccentric to the major axis, functioned to suspend the spooler at an inclination which caused it to be as parallel and contiguous to the wire line as it could be gotten [R. 467]:

“The Court: Just what do you mean by the words ‘normal,’ ‘substantially,’ and all of those words?

Mr. Joseph F. Westall: ‘the normal position with the bore substantially parallel.’

The Court: What does that mean?

Mr. Joseph F. Westall: As parallel as they can get it with the bore through there.

The Court: Then, it isn’t parallel? Is it or isn’t it?

Mr. Joseph F. Westall: It is substantially so, as nearly as can be gotten.”

From a reading of claim 2 it is apparent that it is a combination claim in which all of the other elements, except the eye at the top and the manner in which the spooler was hung, were admittedly old in the art. The claim reads as follows:

“2. A draw works drum line controller body having an elongate, line receiving bore, a pair of opposite lateral control devices each including parts diverging toward the opposite ends of and connected to said body to stabilize it against vibration on its minor axis in the plane of said devices, and a suspension means connected to said body at a point eccentric to the major axis and adjacent to one end of the body to support the body in normal position with the bore substantially parallel and contiguous



to the line for reception thereof substantially without load of the body on the line when this is in a vertical plane transverse to the axis of the draw works drum.”

The contribution which the patentee Moss stated in his specifications he made to the art is not claimed separately. It is claimed in combination. Being included in the combination, it is subject to the test of invention of a combination claim. In *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp.*, 95 L. Ed. 162, 340 U. S. 147, the Supreme Court of the United States in holding a patent invalid, which had been held invalid by the trial court and affirmed on appeal by the Court of Appeals for the Sixth Circuit, stated at p. 165:

“\* \* \* In the third place, if the extension itself were conceded to be a patentable improvement of the counter, and the claims were construed to include it, the patent would nevertheless be invalid for overclaiming the invention by including old elements, unless, together with its other old elements, the extension made up a new combination patentable as such. \* \* \*”

The test of invention laid down by the Supreme Court in said case to govern combination claims was clearly stated at p. 166:

“\* \* \* The conjunction or concert of known elements must contribute something; only when the whole in some way exceeds the sum of its parts is the accumulation of old devices patentable. \* \* \*”

The trial court has made no finding applying the standard test of invention as to combinations laid down by

the Supreme Court. It did not consider whether the combination was anything more *in toto* than the usual results of uniting elements old in mechanics. The court treated the invention not as the invention of a combination claim but as stated in the opinion [R. 23]: “ \* \* \* the question before us is whether Moss’ hanging line at the top constitutes invention.” The lower court having failed to apply the proper test of invention to a combination claim, this court in accordance with the decision of the Supreme Court in the *Great Atlantic & Pacific Tea Co.* case should review the evidence to determine whether invention is present regardless of the finding of validity of the patent and particularly where no specific finding has been made as to what the Moss invention actually is.

No contention is made by appellees that the admitted prior art elements comprising a part of combination claim 2 function in any different manner than they would individually function, for example, in the prior art chain spooler or in the Patterson-Ballagh spooler as shown in Ex. K. The only factor which would cause the combination to meet the test of invention set forth in the *Great Atlantic & Pacific* case would be that the inclusion in the claim of a hanging eye at the top and suspended so as to cause the spooler to assume an angle of inclination substantially parallel to the wire line would cause the complete claim to exceed the sum of its parts.

It is the position of appellants that not only was it obvious to suspend a hanger from an eye adjacent the top in the manner described in the claim but that a spooler or any other object having an eye at the top would necessarily so incline regardless of whether it was or was not in the combination of claim 2.

## Obviousness of the Invention of the Claims in Issue.

The patent statutes of the United States were not passed for the purpose of protecting an alleged invention which is nothing more than the exercise of mechanical skill and which would be obvious to anyone familiar with the art relating to the invention. The Supreme Court of the United States has frequently so stated. In *Saranac Automatic Mach. Corp. v. Wirebounds Patents Co.*, 282 U. S. 704, 713, 75 L. Ed. 634, 639, the court in discussing mechanical skill and the question of invention stated:

“\* \* \* It was ‘but the display of the expected skill of the calling, and involves only the exercise of the ordinary faculties of reasoning upon the materials supplied by a special knowledge, and the facility of manipulation which results from its habitual and intelligent practice.’ *Hollister v. Benedict Mfg. Co.*, 113 U. S. 59, 72, 73, 28 L. ed. 901, 905, 906, 5 S. Ct. 717; *Concrete Appliances Co. v. Gomery*, 269 U. S. 177, 70 L. ed. 222, 46 S. Ct. 42; *Aron v. Manhattan R. Co.*, 132 U. S. 84, 90, 33 L. ed. 272, 275, 10 S. Ct. 24.”

See also:

*Atlantic Works v. Brady*, 107 U. S. 192, 200, 27 L. Ed. 438.

This court has frequently followed this rule of law. In *Rip Van Winkle Wall Bed Co. v. Holmes*, 15 F. 2d 950, this court, in reversing the judgment of the lower court holding the patent valid and infringed, stated at pp. 951, 952:

“\* \* \* The only novel feature that we can discern is the location of the bed on the panel. The bed

is so arranged that the hinged door may be opened or closed when the bed is in the room for use, and this arrangement likewise permits the bed to swing in a narrower recess than if attached farther out on the pivoted door. But, having in view all that is old and open to the public, it seems to us that it required nothing beyond the exercise of ordinary mechanical skill to determine the location or position of the bed on the pivoted panel that would produce the best results. The effect of placing the bed in one position or another would seem apparent even to the casual observer. (Citing *Atlantic Works v. Brady*, *supra*.)”

To the same effect see:

*Wilson-Western Sporting Goods Co. v. Barnhart*,  
81 F. 2d 108 (9 Cir.).

Appellants by the answer, paragraph XIII [R. 10, 11], raised the issue of the obviousness of the alleged invention and whether the same rose to the dignity of invention. This defense was urged at the trial and commented on by the court in its opinion [R. 42-45]. No specific finding or conclusion covered this defense. The determination of the court in its opinion that it would not be obvious to one skilled in the art, including a practical oil man, to hang a spooler from an eye adjacent the top thereof and eccentric to the major axis and by a hanging line which was so suspended as to cause the spooler to assume an angle of inclination substantially parallel to the angle of the wire cable is not supported by the evidence.

The patentee Moss [R. 273] in testifying as to a Patterson-Ballagh spooler which had a hanging eye at the top, as in Pltfs. Ex. 10-E, testified as follows:

“Q. In other words, you knew as a practical man in the oil field seeing that spooler, would know that it should be hung from the top, is that right? A. That is right. If they take that spooler out and throw it on the dirt floor, with the three hangers on it, any practical oil man would hang it from the top hanger.”

It will be noted that this testimony of the patentee and plaintiff Moss was volunteered. Subsequently and on re-direct examination he again so testified [R. 274]:

“Q. You say any practical man before your invention would know that should be hung from the top, particularly when they manufactured the Reed with it hung from the middle for a long time? A. That is right, any practical man would know the spooler wouldn't balance, and hung it from the top.”

The fact that the attorney for appellees [R. 274, 275] through leading questions endeavored to minimize the effect of the voluntary admission emphasized the truthfulness of the witness' voluntary statements.

Appellees' witness B. A. Horan, admittedly a practical oil man, and the only witness for appellees except the appellee Phoebe E. Moss to be called on rebuttal, testified [R. 492, 493]:

“Q. (By Mr. Caughey): My last question, from the knowledge you have in the oil fields, regardless of whether you saw a Moss spooler, if the problem was put up to you to hang something in a well, you would know it would be better to hang a wire line



rope from the top, wouldn't you? A. Would I know?

Q. Yes; as a practical oil man. A. If there is an eye there, yes; if there is no eye there, it would be in the middle."

No additional testimony should be necessary other than the foregoing testimony of the patentee and plaintiff Moss and the witness Horan to clearly establish the obviousness of the alleged invention.

Notwithstanding this unambiguous testimony, the court in its opinion [R. 42] construed it as meaning that a practical oil man subsequent to the Moss invention and having knowledge thereof would know that the spooler would hang better from the top. Such a determination was made even though the testimony of Moss was supported by the testimony of witnesses for the appellants.

Mr. Ballagh, president and one of the owners of Patterson-Ballagh Corporation, stated [R. 391] that the eye which was in the middle of Pltfs. Ex. K [R. 568] and to which the hanging line was attached was changed to the top of the spooler as shown in Pltfs. Ex. 10-E sometime in July, 1937. This change was made because of suggestions made to Mr. Ballagh by the operators in the field and during a trip which he made [R. 394]. At the same time the spoolers manufactured by Patterson-Ballagh Corporation were cast [R. 395]. Mr. Ballagh had never heard of Moss or Moss' invention at that time. In fact the first time he heard of Moss was in 1940 [R. 396]. During this interim Patterson-Ballagh Corporation continued to attach a hanging line to the eye at the top of the spooler as shown in Ex. 10-E.

The change made in the position of the eye to which the hanging line is attached was made only a short time after Moss had installed his first spooler in a well at Huntington Beach, California, on which he was working as a driller [R. 535]. Notwithstanding the testimony of Mr. Ballagh, including the fact that such suggestions were received in the Mid-Continent oil fields and thousands of miles away from California, the court, in discounting the testimony of Mr. Ballagh, assumed [R. 45]: “\* \* \* such suggestions originated not from those who found it obvious, but from those who had seen or heard of the Moss method of hanging at the top.” There is no testimony in the record to support any such assumption.

The fact that an elongated body if hung from the top and at a point from its longitudinal axis would hang at an angle inclined from the vertical was known and is known to anyone who has had experience with hanging objects and including oil well workers who constantly work with hanging weights. This knowledge and experience of practical oil men was undoubtedly what caused the patentee Moss and appellees' witnesses to testify as they did. Regardless of whether the object suspended was a spooler or a piece of pipe and whether the object was solid or had a central bore, or was of any given length or diameter, it would incline at an angle from the vertical if suspended from a point removed from the longitudinal axis. The witnesses were only using their mechanical skill and their common knowledge in determining that a spooler should be suspended from an eye at the top, as volunteered by Mr. Moss. The trial court clearly

erred in determining in its opinion that the Moss contribution to the art was not obvious and this determination or holding is contrary to the evidence.

The court in its opinion [R. 43, 44], in further discounting Mr. Ballagh's testimony, pointed to the fact that neither the application of the Reed patent Pltfs. Ex. 2 [R. 518] nor the abandoned application of Ballagh [R. 397] disclosed a hanging line attached to an eye at the top of the spooler shown therein. The trial court overlooked the fact that the spoolers shown in the Reed patent and the Ballagh application had as their principal object the stabilizing of the wire cable and preventing it from whipping. Mr. Ballagh so testified [R. 391]:

“Q. What did you put these guides out primarily for on these spoolers? What was their object? A. Their object was to stabilize the line and keep it from whipping.

Q. And did you send any instructions out with the earlier ones as to how they should be installed? A. I don't believe we did; I don't think we did.”

Reference to the Reed patent Pltfs. Ex. 2 and to the claims thereof shows that the spooler disclosed therein was for this purpose. The manner in which the spooler was suspended was incidental to the primary object of preventing the line from whipping. This primary object is specified as one of the objects of the Moss invention (patent, p. 1, col. 2, lines 9-23). The fact that the manufacturer of a spooler, after solving the major problem of whipping, changed the position of the eye from which the hanging line was suspended because of suggestions received from practical oil men in the field, who successfully operated the spooler to control whipping is what would be

expected. No machine or tool is perfect when invented or first manufactured. The fact that the manufacturer did not, when first selling the spooler, do the thing obvious to the practical man in the field and place the hanging eye at the top adds nothing to the alleged contribution of Moss. The trial court was not justified in discounting the obviousness of the Moss invention by reference to the delay in changing the point of suspension of the hanging line subsequent to manufacture [opinion, R. 44].

The defense that the invention consisted merely of the exercise of mechanical skill and that the same was obvious to a practical man in the oil fields, as set forth in the answer paragraph XIII [R. 10, 11] should have been sustained by the trial court upon the evidence and such evidence should compel this court to reverse the judgment as to validity, particularly when considered by this court and applied to the test of invention of a combination claim as laid down by the Supreme Court in the *Great Atlantic & Pacific Tea Co.* case.

The defense as set forth in paragraph XXII of the answer [R. 14], that the inclination of the line spooler caused by the attachment of the suspending line in the manner specified in claim 2 produces no unusual or unexpected result either separately or in the combination, should also be sustained because any object suspended in the manner covered by said claim would so incline even though not associated with the other elements of said claim.

In the light of the clear and uncontradicted evidence in this case, this court in applying the test of invention laid down by the Supreme Court as to combination claims should reverse the trial court upon the question of validity.



## Failure to Comply with Section 33 of Title 35.

Title 35, U. S. C., Section 33, provides that as a condition of securing a valid patent an applicant must not only point out and distinctly claim what he has invented but that he also must explain and describe the invention in the specifications so that one skilled in the art to which the invention appertains can construct the same and that when constructed it will be operative. The answer paragraph XXI [R. 14] raises this defense on the question of validity.

A defense based upon the provisions of Section 33 is not a technical defense. The Supreme Court of the United States has had occasion numerous times to call attention to the necessity of complying with the provisions of Section 33. In *Schriber-Schroth Co. v. Cleveland Trust Co.*, 83 L. Ed. 34, 39, 305 U. S. 47, the Supreme Court pointed out this necessity, stating:

“\* \* \* The statute, Rev. Stat. §4888, 35 U. S. C. A. §33, provides that the application which the inventor must file as a prerequisite to a patent shall contain ‘a written description of (his invention) . . . and of the manner and process of making, constructing . . . and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art . . . to . . . construct . . . and use the same; and in case of a machine, he shall explain the principle thereof, and the best mode in which he has contemplated applying that principle, so as to distinguish it from other inventions . . .’

“The object of the statute is to require the patentee to describe his invention so that others may construct and use it after the expiration of the patent and ‘to inform the public during the life of the patent of the



limits of the monopoly asserted, so that it may be known which features may be safely used or manufactured without a license and which may not.' *Permutit Co. v. Graver Corp.*, 284 U. S. 52, 60, 76 L. ed. 163, 167, 52 S. Ct. 53. It follows that the patent monopoly does not extend beyond the invention described and explained as the statute requires, *Permutit Co. v. Graver Corp.*, *supra* (284 U. S. 57, 76 L. ed. 165, 52 S. Ct. 53); that it cannot be enlarged by claims in the patent not supported by the description, *Snow v. Lake Shore & M. S. R. Co.*, 121 U. S. 617, 30 L. ed. 1004, 7 S. Ct. 1343; *cf.* *Smith v. Snow*, 294 U. S. 1, 79 L. ed. 721, 55 S. Ct. 279; \* \* \*

See also:

*General Electric Co. v. Wabash Appliance Corp.*,  
82 L. Ed. 1402, 1405, 304 U. S. 364;

*United Carbon Co. v. Binney & Smith Co.*, 87  
L. Ed. 232, 237, 317 U. S. 228;

*Consolidated Electric Light Co. v. McKeesport  
Light Co.* (also known as *The Incandescent  
Lamp Patent Case*), 40 L. Ed. 221, 159 U. S.  
465.

It is the contention of appellants that both the description in the specifications and the language of the claims fail to meet the requirements of Section 33 because the patentee has failed to disclose essential information covering the construction and operation of the spooler and has likewise failed to make the alleged invention definite in the claims in issue.

The specifications fail to state at what place in the derrick the hanging line, extending from the eye adjacent the

top of the spooler, should be attached in order that the spooler might assume an angle substantially parallel to the longitudinal axis of the wire cable extending from the crown block to the cylinder drum. That the place where the hanging line in the derrick is attached is important and governs the functioning of the spooler is clearly shown by the testimony of the patentee Moss. He testified [R. 236]:

“Q. And how far up on the derrick did you attach the hanging line? A. I went up the derrick just as far as it needed to go to make it line up with the drum on the drilling line. Some drums vary farther than others. That is why you have to go farther so they will line up and be perpendicular and take the friction off your spooler. All rigs are not alike.

Q. In other words, you attach the hanging line far enough up on the derrick so it was directly over the drum, is that correct? A. That is right, and far enough so that the spooler wouldn't have any friction on it.”

He further testified [R. 237]:

“Q. And you consider that of importance, do you? A. Yes, sir.

Q. Would this spool(er) as shown in your patent function if it was not hung in that manner? A. No, it wouldn't.”

The specifications make no mention of attaching the hanging line on the derrick over the cylinder drum even though the patentee admits that the spooler would not function unless hung in this manner. The patentee Moss,

further testifying as to the attaching of the hanging line on the derrick, testified [R. 240]:

“Q. Would there be more friction if it was attached to the sixth girt? A. Yes.

Q. And would there be still more friction if it was attached to the fifth girt? A. Yes, the spooler wouldn't function.

Q. Wouldn't function at all? A. No. If you pulled it back out of line, if you pulled it like there, your rubbers would burn out within two or three stands. If you pulled that back out of line, say, like that (indicating).

Q. Then you say it wouldn't function? A. No, sir.”

There is nothing in the specifications which teaches that the spooler will not function if it is attached to the fifth or sixth girt in the derrick or if it is pulled back out of line as described by the patentee in the foregoing testimony. The patentee has, therefore, failed to disclose or describe in the specifications the necessary information to enable one skilled in the art to construct a spooler so it will properly function.

The specifications fail to disclose or describe any dimensions of the spooler. The patentee Moss testified [R. 258, 259] as to the length of the spoolers constructed by him as follows:

“Q. Does the length of the spooler have any effect on the dampening of the waves? A. Well, yes and no.

Q. All right, let's assume— A. Pardon me.

Q. All right, go ahead. A. As I said, mine was four feet. That is what I decided on. One three feet would do practically the same in the length.

Q. Suppose it was a foot? A. A foot? Well, youl wouldn't get very good results. Like the old chain, you wouldn't get the waves ironed out. I never seen one demonstrated of a foot. That is my idea. But I don't think so."

By this testimony the patentee admits that the length of the spooler has an effect on the dampening of the waves of the wire cable which is one of the primary objects of the invention as stated in the specifications. Not only does the length of the spooler affect the dampening of the waves but it also affects the angle of inclination of the suspended spooler. Allen E. Hambly, called as a witness for appellants, produced a drawing Defs. Ex. L [R. 569] with the scale  $1/6''$  to  $1''$  and in Figs. 2 and 3 thereof showed Patterson-Ballagh 2-section and 4-section guides similar to those shown in Pltfs. Ex. 10-E and found to infringe. The 4-section spooler is 28 inches in length [R. 449] and the 6-section spooler is 44 inches in length [R. 450].

The testimony of Mr. Hambly [R. 448-450] clearly demonstrates and with mathematical precision that the length of a spooler is an important factor in determining the inclination of the suspended spooler from the vertical. In fact the difference in length of the 4-section and 6-section spoolers caused a difference in angle of inclination of 5 degrees. Similar computations made on the 2-section spooler of Patterson-Ballagh Corporation, as shown in Pltfs. Ex. 10-E and held to infringe [R. 451] and which had an overall length of 16 inches, shows a

difference in angular inclination from the 4-section spooler of 16 degrees, *i. e.*, the difference between 30 degrees from the vertical and 14 degrees from the vertical. The angles of inclination, as testified to by Mr. Hambly, were admitted to be correct by counsel for appellees [R. 446]:

“Mr. Joseph F. Westall: We have already stipulated or stated that we believe those angles are correct and that they are correctly figured. I had intended to bring a protractor here and figure it, although I don’t think it is material. We have agreed to it, so I don’t see why we should take the time to go over it.”

Counsel in this statement was referring to Defs. Ex. L [R. 569] and the angular measurements therein.

This testimony is conclusive that the length of a suspended body, *i. e.*, a spooler, and which is suspended at a point eccentric to its axis and at the top, materially affects the angle of inclination. Nevertheless there is nothing in the specifications or in the claims which in any way explains the importance of this length or the manner in which it will affect the angle of inclination of the spooler. Obviously two spoolers of unequal length, such as the 4-section and 6-section spoolers of Patterson-Ballagh Corporation, shown in Pltfs. Ex. 10-E, could not both be parallel or contiguous when suspended to the longitudinal axis of the wire line when the spoolers vary considerably as to angle of inclination.

The point from which the eye at the top of the spooler is offset from the major axis of the spooler is also important in so far as the angle of inclination is concerned. Mr. Hambly so testified [R. 455]:

“Q. (By Mr. Caughey): Mr. Hambly, the distance which the eye is offset from the axis, which



would be the wire rope going through the guide or spooler—is that important in so far as the angle of inclination is concerned? A. It is very important. It has a strong bearing on what angle the spooler will normally assume.

Q. In other words, the closer to the axis, you would have a less angle of inclination, is that right? A. That is right for the same length, for a spooler of the same length. A given length, the closer the point of connection of the hanging line to the eye is, the more nearly vertical the spooler will hang.”

There is no evidence to the contrary in the record. The specifications and claims are silent as to this important feature and give no dimensions as to diameter or the effect of varying the diameter of the spooler. The importance of varying the distance of the eye at the top of a spooler from the longitudinal axis was demonstrated to the court by Mr. Hambly [R. 455-457].

The specifications do not describe and the claims are not definite as to three important factors which govern the functioning of the claimed invention. These factors are the positioning of the hanging line in the derrick, the length of the spooler and the distance of the eye at the top of the spooler from the longitudinal axis. No person skilled in the art could construct a spooler as disclosed and described in the specifications or a structure such as claimed in claim 2 and have the function included therein without the necessary information as to these factors. Mr. Hambly testified [R. 452] that a spooler to have an inclination of 4 degrees from the vertical or substantially on the axis of the wire cable, inasmuch as the wire cable is inclined 4 degrees from the vertical in a derrick, would have to be 104 inches in length. In so

determining Mr. Hambly assumed that the eye at the top of the spooler was  $3\frac{1}{2}$  inches from the major axis because all of the eyes on the Patterson-Ballagh spoolers in Pltfs. Ex. 10-E and found to infringe are  $3\frac{1}{2}$  inches from the major axis [R. 449].

What we have heretofore said applies equally to claim 2 and to claim 7, held valid but not infringed. In addition, claim 7 is subject to the attack that it uses functional language at the exact point of novelty. As previously pointed out, if there is any novelty in the claims in issue it must reside in an eye adjacent the top of the spooler and eccentric to the major axis and having a hanging line attached thereto and suspended to cause the shell to hang at an inclination substantially parallel to the wire line threaded through it. There is no structure defined in claim 7 which even approaches the definiteness required by Section 33. The language of claim 7 which pertains to the alleged contribution to the art made by Moss reads as follows:

“\* \* \* said suspending means including a device hitched to the shell at a point eccentric to its bore to cause the shell to hang at a desired angle from the vertical; \* \* \*”

This language does not define where the eye to which the hanging line is attached should be located along the bore. It does not specify any particular angle at which the spooler shall be suspended. It merely states that the shell shall be hung at a desired angle from the vertical. There is no definiteness at all as to what is the desired angle. It is a mere functional statement and at the exact point of novelty. Under the cases heretofore cited, the claim is clearly invalid.

In *General Electric Co. v. Wabash Appliance Corp.*, 304 U. S. 364, 82 L. Ed. 1402, 1405, the court in holding a patent invalid (which had previously been sustained by this court in *Anraku v. General Electric Co.*, 80 F. 2d 958), stated:

“\* \* \* Patents, whether basic or for improvements, must comply accurately and precisely with the statutory requirement as to claims of invention or discovery. The limits of a patent must be known for the protection of the patentee, the encouragement of the inventive genius of others and the assurance that the subject of the patent will be dedicated ultimately to the public. \* \* \*”

See:

*Holland Furniture Co. v. Perkins Glue Co.*, 277 U. S. 245, 72 L. Ed. 868, 872, 873.

The court in its opinion [R. 41, 42] paid little attention to this defense, stating:

“We feel that this defense merits little attention. A reading of the Moss patent leaves no doubt that, as required by the statute, the invention has been described so as ‘to enable any person skilled in the art or science to which it appertains, or with which it is most nearly connected,’ to make and use the Moss spooler to obtain the results specified.”

This determination of the court is not supported either by the specifications or claims or by the evidence, including the testimony of the patentee Moss. The failure to comply with Section 33 fully justifies this court in reversing the trial court upon the question of validity covered by paragraph II [R. 92] of the amended interlocutory judgment.

## The Date of Invention of the Moss Patent.

An invention to be completed requires a conception of the invention, including a disclosure of said conception to others, and in addition a reduction to practice of the invention which may be either an actual reduction to practice or a constructive reduction to practice by the filing of a patent application. The Supreme Court of the United States in the early case of *Seymour v. Osborne*, 11 Wall. 516, 550, 20 L. Ed. 33, 41, stated:

“\* \* \* in order to constitute an invention, the party must have proceeded so far as to reduce his idea to practice, and embodied it in some distinct form.”

A good statement of the difference between conception and reduction to practice was made by the Court of Appeals for the First Circuit in *Automatic Weighing Mach. Co. v. Pneumatic Scale Corp.*, 166 Fed. 288, 298, wherein the court stated:

“The law appears to be well established that a conception evidenced by disclosure, drawings, and even a model, confers no rights upon an inventor unless followed by some other act, such as actual reduction to practice, or filing an application for a patent. A conception of this character is not a complete invention under the patent laws. It may constitute an invention in a popular sense, but it does not make the inventor the ‘original and first inventor’ under the statutes. If it did constitute an invention under the statutes, then an inventor might stop with his drawings and disclosure, and hold the field for all time against a subsequent inventor who has reduced his invention to practice, or who has obtained a patent. The law will not permit this. An inventor

must not stop with this stage of his invention, but he must proceed with reasonable diligence to perfect his invention, either by actual reduction to practice, or by filing his application for a patent.”

This court has had occasion to consider the question of conception and reduction to practice and has applied the principles laid down by the Supreme Court.

See:

*Hann v. Venetian Blind Corp.*, 111 F. 2d 455.

Other circuits have also considered the same questions:

*Twentieth Century Mach. Co. v. Loew Mfg. Co.*,  
243 Fed. 373 (6 Cir.);

*National Machine Corp., Inc. v. Benthall Mach.  
Co., Inc.*, 241 Fed. 72, 82 (4 Cir.).

The trial court, although not specifically finding or concluding, determined in its opinion [R. 52] that Moss conceived the invention on May 16, 1936 and reduced the same to practice in November, 1936 [R. 55]. The invention which the court determined was reduced to practice was that included in claim 2 in issue. This invention is more than the spooler *per se* and includes side bridles, side arms, counterweights and suspension means. Furthermore, the suspension means must be so connected as to cause the spooler to incline at an angle substantially parallel and contiguous to the wire cable threaded through it. It is obvious that the invention would not be complete unless it was so suspended. A spooler on the ground, even though it had attached side bridles and counterweights and a hanging line free at one end and attached at the other to an eye on the spooler, would have no utility



in such a position. The spooler is only operative when suspended in a derrick and the invention could only be complete when it met the language of claim 2 and was so suspended with accompanying bridles and counterweights.

What is the evidence upon which the trial court determined the date of reduction to practice? The witness Terry was called on behalf of appellees. He was a production superintendent for the Holly Oil Company for whom the patentee Moss was working. He testified [R. 141] that in November, 1936 he furnished a 4 inch diameter pipe to Moss which was about 3 feet in length and that Moss brought it back in about four or five days [R. 142] as a spooler. On cross-examination he admitted it wasn't in a well or rig [R. 143], that it had no counterweights on it and he wasn't sure whether the rubber bearings were inside the shell [R. 143, 144]. Furthermore, it didn't have the side bridle lines. It is, therefore, apparent from the testimony of the witness Terry that the invention as stated in claim 2 in issue was not present when the spooler was shown to Terry in November, 1936. In fact Terry testified that he had nothing to do with the testing of the first actual spooler [R. 142] and that it had never been used when he saw it nor for quite a while afterwards [R. 143]. The appellee Phoebe E. Moss, although she testified [R. 282] that she was present when Mr. Moss made a spooler in 1936 and saw the same, did not describe the construction thereof or what actually was attached to the spooler at that time, for example, side bridles, counterweights, rubber bearings, etc. There is, therefore, no corroboration of the testimony of Mr. Moss as to the construction of the spooler in No-

vember, 1936, much less any testimony that the invention as covered by claim 2 was complete at that time.

Mr. Moss testified that the first spooler which was installed in a well was installed on April 5, 1937 [R. 231]. There is no contention by the appellees that prior to said date a spooler containing the elements specified in claim 2 was suspended in a derrick in the manner stated in claim 2. That the patentee Moss was not fully familiar with the operation of the spooler in a well in November, 1936 is clearly shown by his testimony [R. 175] where he stated:

“Q. Have you ever had any particular special experience with line spoolers such as involved in this case? A. Yes, I know the line spoolers thoroughly.

Q. And how long have you given your attention to understanding the line spooler and knowing its operation? A. Since April the 5th, 1937.”

The invention claimed by Moss was not reduced to practice in November, 1936 and the earliest date which can be established as a reduction to practice of the invention is April 5, 1937, the date when the Moss spooler was first tested in actual operation and the first time when the complete combination of claim 2 was in being. Under the established law there is no support for the court's determination that the invention was reduced to practice in November, 1936.

The court also determined [R. 54] that Moss was diligent from the date of his conception to his reduction to practice. The question of diligence was considered by this court in *Hann v. Venetian Blind Corp.*, *supra*. A

clear statement as to the true rule as to diligence is given by the First Circuit in *Automatic Weighing Mach. Co. v. Pneumatic Scale Corp.*, 166 Fed. 288, 301:

“We understand the true rule to be that a patentee who undertakes to carry back the date of his invention to his drawings and disclosure must show reasonable diligence in adapting and perfecting his invention, either by actual reduction to practice or by filing his application. This rule is supported by the great weight of authority, and we have found no cases which directly hold that this is not the law, although there are some cases in which a patentee has been permitted to carry back his invention to his drawings and disclosure, where the question of diligence was not raised or passed upon. \* \* \*”

The only testimony pertaining to diligence in reducing the invention to practice is that of Mr. Moss. When asked [R. 253, 254] what he did between his date of conception, *i. e.*, May, 1936, and November, 1936, he testified as follows [R. 254]:

“A. At the time I mentioned it to Mr. Anderson, I had it in mind. I didn't do anything until I got the thing pictured in my head how I was going to make it, and November 23, as I said, I went down to Huntington Beach and I got the stuff November 23, 1936. I got the stuff from Mr. Terry to build it with, the gang pushers.

Q. Then, what you actually disclosed to Mr. Anderson in May, 1936, was really the idea of having a spooler. You didn't explain the construction to him, did you? A. Very thoroughly. I explained it very thoroughly.

Q. Why did you have to have all that time to get an idea how you wanted to make it if you had it very thoroughly in mind? A. Well, I wanted to put it on a rig, as I just stated, where I knew somebody and it would get a fair chance, a fair trial.

Q. That is the best answer you can give to the question? A. Yes."

When asked what he did between November, 1936 and April, 1937, he testified as follows [R. 251]:

"Q. All right. Now, my question is, between November 23, 1936, and April 5, 1937, what, if anything, did you do in connection with trying out the spooler? A. I didn't try any because I didn't want to put it on a rig before I knew the men, so it would get a fair chance."

The only excuse which Mr. Moss could give for not reducing the invention to practice was that he wanted to put it on a rig where it would get a fair trial. He was working for the Holly Oil Company at that time under Mr. Anderson, whom he called as a witness. He obtained material for building the spooler from Mr. Terry of the Holly Oil Company and when the spooler was actually installed in a well it was installed in a well of the Holly Oil Company, the concern for whom he was working. Under what better conditions could Mr. Moss test the completed invention than in the well of his employer and in association with people with whom he was friendly? The test of reasonable diligence in adapting and perfecting the invention was not met by Mr. Moss and under the evidence he is not entitled to a date of reduction to practice or to a completion of the invention prior to April 5, 1937. The determination of the court that Moss was

diligent is not supported by the evidence when applied to the established law.

The question necessarily arises in this court's mind, what has this to do with the issues? The answer is that, when the scope of claim 2 is discussed in connection with the infringement of the spoolers shown in Ex. 10-E, the activities of those in the art prior to the date of invention of the Moss Spooler become pertinent.

### **Defendants' Spoolers Do Not Infringe Claim 2.**

The defense of noninfringement was placed in issue by paragraph X of the answer [R. 10]. It was raised on appeal [R. 94] by specifically appealing from paragraph III [R. 92] of the amended interlocutory judgment. It is the position of the appellants that they do not either directly or contributorily infringe claim 2 by the manufacture and sale of spoolers as shown in Pltfs. Ex. 10-E.

The only element of claim 2 which was not embodied in and used in prior art spoolers, for example, Patterson-Ballagh spoolers Defts. Ex. H [R. 555], is the placing of an eye adjacent the top of the spooler and attaching a suspension line to the same, the other end of which is attached to a derrick to cause the spooler to hang so as to be substantially parallel to the axis of the wire line. Claim 2 does not cover a spooler suspended from the top. The claim was necessarily so limited in the Patent Office during the prosecution of the application [file wrapper, Pltfs. physical Ex. 10]. Even if the patentee was entitled to a broader claim, he is precluded from so asserting at the present time. He has dedicated to the public



any other invention which may have been described in the specifications and which was not claimed.

*Miller v. Bridgeport Brass Co.*, 104 U. S. 350, 26 L. Ed. 783;

*Bantz v. Frantz*, 105 U. S. 160, 26 L. Ed. 1013;

*Rip Van Winkle Wall Bed Co. v. Murphy Wall Bed Co.*, 1 F. 2d 673 (9 Cir.), certiorari denied 267 U. S. 594, 69 L. Ed. 804;

*O. H. Jewell Filter Co. v. Jackson*, 140 Fed. 340 (8 Cir.).

The claim cannot now be rewritten by the court nor interpreted to cover more than the invention claimed. Interpreted in the light of the alleged contribution made to the art by Moss, as stated in the specifications of the patent, appellants' spoolers do not infringe because of the following facts:

Reference has heretofore been made, upon the question of the definiteness of the claims and the sufficiency of the description in the specifications, to Defs. Ex. L [R. 569]. It is necessary in discussing the question of infringement to repeat some of the facts heretofore stated. Mr. J. E. Reed testified [R. 310, 311] that the height of oil well rigs used in 1936 and 1937 was 122 feet and 136 feet [R. 310]. The 122 foot derrick had an inside space at the bottom of 24 feet square and a width across the top of 5 feet 6 inches inside measurement [R. 311]. The 136 foot derrick had a bottom measurement of 26 feet square and the same measurement across the top. He further testified that the wire line coming off the crown block and through a pulley was about 8 inches from the side of the derrick at the top [R. 314] and that the cylinder

drum used in 1936 was an 18 inch drum [R. 315] and was adjacent one side of the derrick. There is no dispute as to this testimony. The measurements are corroborated by the API handbook, which is in evidence as Defs. physical Ex. M.

In order to determine the angle of inclination of the wire line from the vertical, Mr. Hambly produced Defs. Ex. L [R. 569]. Fig. 1 thereof shows a derrick wire line cylinder drum and suspended spooler from a line attached to the derrick and a crown block and pulley at the top with the drawing being for a 122 foot derrick and to the scale shown thereon, *i. e.*,  $\frac{1}{4}$  inch to a foot. Mr. Hambly testified [R. 449] that the wire line from the crown block to the derrick was inclined approximately 4 degrees and 16 or 17 minutes from the vertical. The accuracy of the drawing, Fig. 1 of Defs. Ex. L is not disputed.

For the purpose of clearly showing the trial court the angle of inclination that the Patterson-Ballagh spoolers found to infringe would assume when suspended in a derrick, Mr. Hambly included Figs. 2 and 3 in Defs. Ex. L. The measurements and angles shown thereon are not disputed. Fig. 2 shows a Patterson-Ballagh 6-section guide known in the trade as a sextet, and Fig. 3 shows a 4-section guide known in the trade as a quartet. Mr. Hambly testified as to the angle of inclination from the vertical of the 6-section guide [R. 450] finding the same to be approximately 9 degrees and 5 minutes from the vertical and, inasmuch as the wire line is at an angle of inclination of approximately 4 degrees from the vertical, the angle of inclination of the 6-section spooler shown in Fig. 2 would be approximately 5 degrees from the angle

of inclination of the wire line. This determination was made by simple mathematical calculations commonly used to determine angles.

The witness also determined [R. 449] the angle of inclination of the 4-section guide from the vertical, as shown in Fig. 3, and determined the same to be very close to 14 degrees from the vertical and approximately 10 degrees from the inclination of the wire line [R. 450].

In addition, he also determined the inclination of a 2-section spooler found to be infringed but did not show it on the drawing because it was so far away from the axis of the line [R. 451]. The computation to determine the angle of inclination from the vertical, made in the same manner as the angles shown in Figs. 2 and 3, found that a 2-section spooler was at an angle of 30 degrees and some odd minutes from the vertical, or approximately 26 degrees from the inclination of the wire line [R. 451].

Obviously the angle of inclination which the Patterson-Ballagh spoolers found to infringe assumed when suspended in a derrick did not cause them to be parallel with the angle of inclination of the wire line inasmuch as the 6-section spooler shown in Fig. 2 was approximately 5 degrees therefrom, the 4-section spooler shown in Fig. 3 was approximately 10 degrees therefrom and the 2-section spooler, not shown in Ex. L, was approximately 26 degrees therefrom.

The trial court determined in its opinion and by its findings, conclusions and judgment, that the word “substantially” in claim 2 was entitled to an interpretation which would include these divergent angles of inclination. Although the computations are not disputed and in fact admitted by counsel for appellees [R. 446], the

court in its opinion [R. 57] labeled the computations as inconclusive and in the nature of *ex parte* tests. The measurements shown in Ex. L are admitted to be accurate and were made in accordance with established mathematical principles. The fact that the drawing was made outside the court room or inside the court room would be immaterial. In fact appellees' counsel, recognizing this fact, admitted the accuracy of Defs. Ex. L.

In further discrediting Mr. Hambly's testimony, the court [R. 57] apparently assumed that the length of the hanging line would in some manner affect mathematical calculations. The court failed to appreciate that Mr. Hambly was determining the angle of inclination of a wire line spooler and particularly the angle which it would normally assume when suspended and free to incline. The length of a hanging or suspending line would not affect the normal angle of inclination of a body suspended at the top in the manner shown in Defs. Ex. L [R. 477, 478].

Furthermore the determination of the court that the word "substantially" was sufficiently broad to include the appellants' spoolers is not in accordance with the testimony of the patentee Moss. He stated [R. 237] that the spooler when suspended should be within 2 or 3 degrees of the axis of the wire line:

"Q. Attach it up above, is so that, regardless whether the line is through the spooler or not, it would turn at the same longitudinal angle as the axis of the wire which would be passing through it ordinarily? A. Yes, within two or three degrees.

Q. Within two or three degrees? A. Yes."

The determination of the court, in addition, is not in accordance with the statement of appellees' counsel [R. 467], nor is it in accordance with the specifications of the patent in suit as heretofore quoted at page 17. It would appear almost to be an absurdity to state that a spooler, *i. e.*, the 2-section spooler of Patterson-Ballagh, inclined at an angle of 30 degrees from the vertical or 26 degrees from the axis of the wire line would be substantially parallel to the wire line. It is suggested that the interpretation of the court of the word "substantially" in claim 2 was predicated upon and due to the statement of the court appearing in the opinion [R. 23] and reading as follows:

"\* \* \* Counsel are also agreed that the question before us is whether Moss' hanging line at the top constitutes invention."

The claims of a patent should be construed and interpreted in the light of the specifications and drawings. This court so held in *Keszthelyi v. Doheny Stone Drill Co.*, 59 F. 2d 3, at p. 6, stating:

"The law is well settled that, although the claims of a patent may be construed and interpreted by reference to the drawings and specifications, they may not thereby be enlarged. *Yale Lock Mfg. Co. v. Greenleaf*, 117 U. S. 554, 6 S. Ct. 846, 29 L. Ed. 952; *White v. Dunbar*, 119 U. S. 47, 7 S. Ct. 72, 30 L. Ed. 303; *Howe Machine Co. v. National Needle Co.*, 134 U. S. 388, 10 S. Ct. 570, 33 L. Ed. 963; *McCarty v. Lehigh Valley R. Co.*, 160 U. S. 110, 16 S. Ct. 240, 40 L. Ed. 358."

See also:

*Smith v. General Foundry Mach. Co.*, 174 F. 2d 147, 150, 4 Cir.



Claims should be so interpreted even though they include the word “substantially.” In *General Electric Supply Corp. v. Maytag Co.*, 100 F. 2d 218, the Court of Appeals for the Eighth Circuit, at page 223, held that the use of the adjective “substantial” in a claim did not cause the claim to violate the provisions of Sec. 33 Title 35 because claims should be considered in connection with the disclosures in the drawings and specifications and the word “substantially” added nothing thereto.

This holding is in accordance with the *Eibel Process Co. v. Minnesota & Ontario Paper Co.* case, 261 U. S. 45, 67 L. Ed. 523. In *Musher Foundation, Inc. v. Alba Trading Co., Inc.*, 150 F. 2d 885, the Court of Appeals for the Second Circuit, at 889, citing the *Eibel Process* case, stated that the word “substantially” was implied in every claim and that it adds nothing when it is therein. See also: *Plant Products Co. v. Charles H. Phillips Chemical Co., Inc.*, 16 Fed. Supp. 553, wherein the word “substantially” in the claims was interpreted (p. 556) in accordance with the specifications of the patent and the teachings thereof.

The foregoing cases establish that claims may be construed by reference to the drawings and specifications but not enlarged thereby and that the use of the word “substantially” in a claim does not change the test to be applied in interpreting or construing a claim.

The question before the trial court upon the issue of infringement was whether claim 2 in issue was infringed. That is, whether or not the accused structures although not meeting the actual language of the claims came within the invention of the claims as interpreted but not enlarged by the specifications and drawings. The doctrine of equivalency in patent law is resorted to to determine

this question. The test to be applied in determining equivalency was clearly set forth in *Electric Protection Co. v. American Bank Protection Co.*, 184 Fed. 916, 923, 8 Cir., wherein the court stated:

“\* \* \* To sustain the charge of infringement the infringing device must be substantially identical with the one alleged to be infringed in (1) the result attained; (2) the means of attaining that result; and (3) the manner in which its different parts operate and co-operate to produce that result. If the devices are substantially different in either of these respects the charge of infringement is not sustained. *Machine Co. v. Murphy*, 97 U. S. 120, 24 L. Ed. 935; *Eames v. Godfrey*, 1 Wall. 78, 17 L. Ed. 547; *National Hollow B. B. Co. v. Interchangeable B. B. Co.*, 106 Fed. 693, 45 C. C. A. 544; *Adams Electric Railway Co. v. Lindell Ry. Co.*, 77 Fed. 432, 23 C. C. A. 223. \* \* \*

The Eighth Circuit in this decision was following the Supreme Court of the United States in:

*Field v. De Comeau*, 116 U. S. 187, 29 L. Ed. 596;

*Yale Lock Mfg. Co. v. Sargent*, 117 U. S. 373, 29 L. Ed. 950;

*Westinghouse v. Boyden Power Brake Co.*, 170 U. S. 537, 568, 569, 42 L. Ed. 1136.

This court in *Grant v. Koppl*, 99 F. 2d 106, 110, applied the doctrine of equivalency in affirming the district court in holding the patent in suit not infringed because of a difference in mode of operation and also an equivalency of means.

The accused structures, Pltfs. Ex. 10-E, as conclusively shown by the testimony of Mr. Hambly, are not parallel when inclined to the axis of the wire line. The result to be obtained by the patent as described in the specifications, and heretofore quoted at page 17, therefore, is not and cannot be obtained by appellants' spoolers for the reason that the angular divergence of appellants' spoolers from the axis of the wire line, varying from 5 degrees to 26 degrees, would necessarily impose a noticeable resistance on the wire line and would be outside the range of equivalents voluntarily imposed by the patentee Moss, that is 2 or 3 degrees from the axis of the wire line.

The court in its opinion [R. 61, 62] in the face of the express language of the specifications and the admission of the patentee Moss has found identity as to means and also as to result and mode of operation. The court in so determining used only general language and it was not pointed out or shown where there was identity of means, result or mode of operation. Appellants' spoolers, as shown in Pltfs. Ex. 10-E, did not result in the spoolers being suspended at an angle of inclination which would cause them to be parallel to the wire line as the word "parallel" must be interpreted in the light of the specifications and drawings and in the light of the admission of the patentee Moss. A construction of the claim to include appellants' spoolers would be enlarging the same and would be contrary to the holding of this court in *Keszthelyi v. Doheny Stone Drill Co.*, *supra*. Furthermore, there is not identity as to mode of operation because the distance of the eye at the top of appellants' spoolers from the major axis, together with the length of the spoolers, causes said spoolers to assume such an angle of inclination that noticeable resistance is imposed on the wire line.

If the trial court had considered the claims in issue as combination claims and had properly applied the law as to the interpretation of claims and the test of equivalency as laid down in the foregoing cases, appellants are of the opinion that it would not have erred in its finding of infringement.

Furthermore, the finding of the trial court as to infringement enlarges claim 2 so as to give it such a scope that it would be invalid in view of prior art spoolers. It is a fundamental principle of patent law that that which infringes, if later, anticipates if earlier, or as otherwise stated, the field of prior use must be at least as broad as the field of infringement.

*Peters v. Active Mfg. Co.*, 129 U. S. 530, 537,  
32 L. Ed. 738;

*Knapp v. Morss*, 150 U. S. 221, 228, 37 L. Ed.  
1059;

*American Safety Table Co. v. Singer Sewing Mach.  
Co.*, 95 F. 2d 543, 3 Cir.; certiorari denied:  
305 U. S. 622, 83 L. Ed. 397;

*National Lock Washer Co. v. George K. Garrett  
Co., Inc.*, 98 F. 2d 643; certiorari denied: 305  
U. S. 649, 83 L. Ed. 420.

In July 1936 Reserve Oil Company purchased spoolers from Patterson-Ballagh Corporation [R. 380-383]. Invoices and orders covering the same are in evidence Defs. Ex. I [R. 557-561]. The Patterson-Ballagh spoolers covered by Defs. Ex. I are shown in Defs. Ex. H [R. 555]. Mr. Ballagh, president of Patterson-Ballagh Corporation, took a photograph of one of these spoolers suspended in a well of the Reserve Oil Company [R. 385, 386]. The date of taking said photograph was fixed by

Mr. Ballagh as August 5, 1936 [R. 386]. A print of the photograph showing a Patterson-Ballagh spooler suspended in a Reserve Oil Company well is in evidence as Defs. Ex. K [R. 568].

This spooler, as shown in the photograph, was suspended at the top of the spooler by two lines which were attached to eyes at the top of the spooler and which are more clearly shown in Defs. Ex. H [R. 555]. The side arms and bridles are clearly shown and also the wire line through the spooler. Mr. Ballagh testified [R. 388, 389]:

“Q. Does that (referring to Defs. Ex. K) correctly depict the way that the spooler was hung in the well? A. Yes, sir.

Q. From the two hanging lines at the top, is that correct? A. Yes, sir; that is right.”

The court refused to accept the photograph as evidence that a Patterson-Ballagh spooler was suspended from the top by a hanging line in August 1936 as shown in Ex. K. In its opinion [R. 36] it gave as one of the reasons that Mr. Ballagh was evidently confused at the trial between hanging lines and safety lines.

It is obvious that a hanging line also functions as a safety line and to prevent the spooler from crashing down on the derrick floor if there were no other means to support it other than the hanging line. There was no confusion in the testimony of Mr. Ballagh upon this point, as clearly shown [R. 139]. Mr. Moss, the patentee, testified [R. 264] that no oil man or driller with any ability would put up a spooler without a hanging line because if the hanging line were not there and functioning as a safety line the spooler would not be supported.



No other line is shown in Ex. K which functions as a safety line other than the hanging lines attached at the top of the spooler. These lines function as both hanging lines and safety lines. It is submitted that the photograph Defs. Ex. K clearly shows the use of hanging lines at the top of a spooler.

What is the angle of inclination of a spooler having hanging lines at the top in the manner shown in Ex. K? This angle was determined by Mr. Hambly. Fig. 4 of Defs. Ex. L [R. 569] is a side view of a Patterson-Ballagh 4-section spooler hung from the two eyes at the side to which the upper forks of the side bridles are attached [R. 452]. This is in accordance with the hanging of the Reserve Oil Company spooler. The effect of hanging the spooler from two eyes which are diametrically opposite the axis is to have the spooler assume a vertical position as shown in Fig. 4 [R. 452]. When so suspended the angular deviation from the axis of the wire line is 4 degrees or less than the angular deviation in the case of any of the appellants' spoolers found to infringe [R. 452]. There is no question but that a spooler suspended at the top, in the manner shown in Defs. Ex. K and also in Fig. 4 of Defs. Ex. L, would impose noticeable resistance on the wire line. Such resistance may be noted on Ex. K wherein the spooler is attempting to assume a vertical position when the wire line is threaded through it. This court is certainly as able as the trial court to determine from an examination of Defs. Ex. K whether the spooler has a hanging line at the top.

The finding of infringement by the trial court would include that which was in the art prior to the date of the Moss invention, even as fixed by the court as November, 1936. When the date of the reduction to practice of the

Moss invention is properly found to be April 5, 1937, the disclosure of Smith patent 2,211,299, filed January 4, 1937, Defs. Ex. E [R. 551], becomes prior art, having a date of reduction to practice as of the filing date of the application, January 4, 1937. This patent discloses in the specifications and clearly shows in Figs. 1 and 2 of the drawings hanging lines 50 which are suspended at one end to the side arms of the spooler 61 and the other end of which is attached to a girt in the derrick vertically upward. The difference in angle of the wire line and the hanging line 50 is clearly shown in Fig. 2. This angle for the height of derrick, known to those skilled in the art, would be 4 degrees as shown in Fig. 4 of Defs. Ex. L and by the testimony of Mr. Hambly [R. 452]. The cables 15 are included in the claims of the Smith patent and are described as extending downward *substantially* parallel to the cable to be guided. In discussing this patent, the court [R. 46] could see no similarity to the spooler shown in the Moss patent "except that the Smith device, as well as the Reed device, and the Moss device, each has a hanging line or lines."

The Smith patent was not pleaded in anticipation of the Moss patent. It was pleaded as prior art and the court failed to note that the particular feature of the Smith patent which was pertinent, *i. e.*, the hanging line, was at an angle substantially parallel to the spooler shown therein, as specifically set forth in the claims. If this court should determine that the Smith patent was a publication prior to the date of the Moss invention, the disclosure

therein prevents a holding of infringement as to structures which have an angular deviation from the wire line greater than that of the hanging lines shown in the Smith patent.

The "Reed device" referred to by the court in its decision [R. 46] was a spooler testified to by J. E. Reed as having been constructed under his direction in 1936 [R. 324]. The spooler was a wooden spooler about 18 inches long having a side bridle and counterweights [R. 322]. The means to suspend the wooden spooler is shown in Defs. Ex. B, a sketch drawn by Mr. Reed [R. 546]. As testified to by Mr. Reed [R. 328], the same loop was used on the wooden spooler as was used on a subsequent spooler used in another well of Union Oil Company, *i. e.*, Belridge No. 20, in June or July, 1936. The sketch, although a rough one, shows a spooler, side bridles, a safety line at the bottom and a hanging line attached at the top of the spooler. This hanging line was described by Mr. Reed [R. 322, 323] and as shown in the sketch the two ends of the loop of the hanging line were attached on sides of the spooler opposite the major axis and went up for about 6 feet [R. 323]. Thereafter a single line ran from the top of the loop up to the third girt from the center of the spooler or approximately 21 feet [R. 323] and with the top line just tight enough to hold the spooler level across [R. 323].

Mr. Reed also described a hanging line of a subsequent spooler which was used on Gibson No. 7 of the Union Oil Company in August, 1936 [R. 331]. Mr. Reed made a

sketch of this spooler Defs. Ex. C [R. 547]. The spooler used on Gibson No. 7 was a piece of pipe about 22 inches long [R. 330] or long enough to hold rubber bearings. Defs. Ex. C shows a spooler with side bridles and counterweights and a hanging line 1 formed of a loop for approximately 8 to 10 feet up from the top of the spooler [R. 331]. The line 1 constituting the loop portion ran through a pulley 2 and was fastened at the lower ends to eyes at the top of the spooler. A single line ran from the pulley 2 up to another pulley on the derrick and approximately 21 feet up [R. 331]. The line was reeved through this pulley and hung on the outside of the derrick and attached thereto was a counterweight 5.

The hanging lines shown in both Defs. Exs. B and C functioned to suspend the spooler in a vertical position when the spooler was in its normal position and did not have the wire line therethrough. When so suspended, the angle of inclination of the suspended spooler would be 4 degrees from the axis of the wire line. This is necessarily so because spoolers suspended in the manner shown in Defs. Exs. B and C would normally hang vertically and, with the angle of inclination of the wire line 4 degrees from the vertical, the resistance which would be applied to the wire line when threaded through the spooler would be the resistance which would be imposed because of the difference of angular inclination, *i. e.*, 4 degrees.

That the spooler in the Reserve Oil Company well as shown in Defs. Ex. K, the spooler shown in the Smith patent Defs. Ex. E [R. 551] and the spooler described

by the witness Reed and illustrated in the sketches Defs. Exs. B and C, should be so suspended, *i. e.*, vertically, is only in accordance with that which would be expected in this art and by men skilled in the art.

Furthermore, it is in accordance with the disclosure in the Moss patent where there is clearly shown in the drawings the eyes 17<sup>a</sup> adjacent the top of the spooler and on the diverging arms attached to the shell. As stated in the patent, p. 2, col. 2, lines 60-63:

“The upper limb portions of the arms 17 are provided with eyes 17<sup>a</sup> for the attachment of suspending lines if such an arrangement is more adaptable to given cases of operation.”

The only purpose of the eyes 17<sup>a</sup> is to attach suspending lines in the manner shown in the Reserve Oil Company well, in the manner described by Reed and in the manner shown in the Smith patent. Said disclosure only emphasizes that the patentee Moss in the specifications and in the claims was limiting his invention to a spooler suspended from an eye at the top and eccentric to the major axis and attached to a derrick in such a manner that the spooler would incline at an angle, when normally suspended, substantially parallel to the axis of the wire line. In view of the prior art structures and publications and in view of the disclosure in the Moss patent hereinabove quoted, claim 2 if given a scope sufficient to include appellants' spoolers would be invalid. As previously stated, that which would infringe if later, anticipates if earlier.



## Attorneys' Fees and Wilful Infringement.

The court in its opinion [R. 64] determined that plaintiffs should have judgment for attorneys' fees and left open the finding on the question of wilful infringement. Subsequent to the opinion and within the time specified, *i. e.*, twenty days, briefs and written arguments were filed on the question of wilful infringement. Subsequent to the filing of proposed findings by the plaintiffs, objection was made both to the award of attorneys' fees and to an increase of damages for wilful infringement [R. 70, 71]. A memorandum was filed upon the question of attorneys' fees.

Thereafter the court filed a memorandum on objections to findings and conclusions and [R. 82] stated it would make no findings or conclusions respecting wilful infringement or attorneys' fees until after the report of the special master was presented. In accordance therewith the findings of fact [R. 86] reserved the question of wilful infringement and attorneys' fees and such reservation was included in the judgment [R. 93] in paragraph VII.

Upon the question of attorneys' fees, it was the position of appellants before the trial court and is the position here that attorneys' fees should not be granted as a matter of right pursuant to the provisions of Section 70 of Title 35. Appellants did not have before them at that time the decision of this court in *Park-In Theatres, Inc. v. Perkins et al.*, 190 F. 2d 137. The appellants, however, did have available the history of the amendment of Section 70 in Congress and also the cases of *Hall v. Keller*, 81 Fed. Supp. 835, 836; *Lincoln Electric Co. v. Linde Air Products Co.*, 74 Fed. Supp. 293, 294; and *Union National Bank of Youngstown, Ohio v. Superior Steel Corp.*, 9 F. R. D.

117. All of said cases are in accordance with the decision of this court in the *Park-In Theatres* case.

This is an ordinary case for patent infringement. There are no facts shown by the record which would justify the trial court in awarding attorneys' fees to the prevailing party, either appellants or appellees. Under the facts and in view of the law as established in this Circuit by the *Park-In Theatres* case, no attorneys' fees should be allowed pursuant to the provisions of Section 70.

There is no reason whatsoever for the court reserving the question of attorneys' fees until after the accounting. The reference to a master does not include the power of the master to pass on this particular question. In fact paragraph VII of the judgment [R. 93] specifically reserves that issue to the court. Interlocutory judgments, and particularly in patent cases, should be final except for the accounting. In fact Section 1292(4) of Title 28 covering the jurisdiction of this court in patent causes specifies that this court shall have jurisdiction of patent infringement cases which are interlocutory and are final except for the accounting.

Appellants fully appreciate that they probably have a right in appealing from the final judgment after accounting to challenge any attorneys' fees which may be awarded. It is submitted, however, that the better practice and the practice which should be followed by the district courts is to determine whether attorneys' fees should be awarded from the record before the court at the time the interlocutory judgment is entered.

The provisions of Section 70 of Title 35 USC, as amended August 1, 1946, confer authority upon the trial court to increase the assessed damages in case of wilful infringe-

ment. Section 70 does not provide that damages shall be increased up to treble damages because of wilful infringement but gives the court the right in its discretion to increase the damages.

The evidence in this case shows that the appellant Patterson-Ballagh Corporation prior to the filing of the application for the Moss patent in suit and without knowledge of Moss' invention or activities began using a hanging line from an eye adjacent the top of the spooler. Subsequent to the issuance of the patent, a notice of infringement was forwarded to said corporation but apparently nothing further was done by the patentee Moss until around March 1942 when an offer was made to sell the patent. Thereafter a letter was written to Mr. Moss which is in evidence as Pltfs. Ex. 19 [R. 537]. Thereafter Mr. Moss again contacted Mr. Ballagh, president of Patterson-Ballagh Corporation, and was told that the corporation would abide by the advice of its counsel [R. 406]. Mr. Moss was given no assurance at that time that there would be any settlement of his claim of infringement or any purchase of the patent. The infringement action was not filed until July 18, 1946, more than six years subsequent to the notice of infringement.

There is no evidence in the record that either of the appellants have ever passed off any of their spoolers as Moss spoolers or that there were any acts of unfair competition or otherwise present which might aggregate the infringement found by the court. Frequently parties may attempt to settle claims for infringement which are subsequently resolved in court. The issues of validity and infringement as presented in this case are highly debated. The trial court found it necessary to call upon the parties to orally argue the case, to brief the same and

thereafter to call upon opposing counsel to reargue the case.

Appellants can find no facts in the present record which would justify the trial court to exercise its discretion and award increased damages. The use of the word “wilful” in Section 70 does not mean knowingly. It means a course of action by the appellants which is so far above that in the ordinary patent case that the court would be justified in finding wilful infringement.

We find no case by this court directly in point and upon the question of wilful infringement or reserving this issue. The following cases are to the effect that there should be a course of action by the appellants either by unfair competition, passing off, bald copying, etc., as to justify the court in increasing the damages. No such facts appear in the present case and appellants relied upon legal counsel to advise them and they were governed by such advice.

Furthermore, the appellants had a license under Reed patent 2,238,398, Pltfs. Ex. 2 [R. 518]. This patent was directed to solving the major problem of the lateral whipping of the wire line and the claims allowed covered a structure which solved said problem.

In *Enterprise Mfg. Co. v. Shakespeare Co.*, 141 F. 2d 916, 920, 921, 6 Cir., the court on appeal had before it the question of wilful infringement which it disposed of as follows:

“To question the validity of a patent does not, of itself, constitute wilful infringement. *General Motors Corporation v. Dailey*, 6 Cir., 93 F. 2d 938, 942. If honestly mistaken as to a reasonably debatable question of validity, an infringer should not be made to smart in punitive damages. Compensatory damages constitute adequate remuneration for in-

vasion of a patentee's property rights, unless the refusal of the infringer to bow to the presumptive validity of an issued patent is conciously wrongful.  
\* \* \*

In the case of *General Motors Corporation v. Dailey*, 93 F. 2d 938, referred to in the foregoing quotation, the court stated (p. 942):

“\* \* \* Simply questioning the validity of the patent does not constitute wilful infringement. *Brown Bag-Filling Machine Co. v. Drohen*, 175 F. 576 (C. C. A. 2); *Toledo Computing Scale Co. v. Moneyweight Scale Co.* (C. C.) 178 F. 557, affirmed 187 F. 826 (C. C. A. 7). The protracted delay in the litigation is chargeable to appellee, who did not bring suit until more than two years after the expiration of the patent and sued at law when it should have filed a bill in equity.”

In *Brown Bag Filling Mach. Co. v. Drohen*, 175 F. 576, the Court of Appeals for the Second Circuit had before it the question of increased damages under Section 70, which as then worded was substantially the same as it now reads. The court at page 577, in denying such damages, stated:

“\* \* \* It is further argued that if it elects to receive damages the court should treble the amount under the provisions of section 4921 of the Revised Statutes (U. S. Comp. St. 1901, p. 3395). Regarding the latter contention we may say that we do not regard the present case as one warranting the application of the statute. We have recently had occasion to examine this question in the case of *Fox v. Knickerbocker Co.*, 165 Fed. 442, 91 C. C. A. 386, and although we sustained the action of the Circuit



Court as within its discretion, we intimated that had the question been presented to this court in the first instance the damages would not have been increased. In the Fox Case no testimony showing the invalidity of the patent was introduced and infringement was admitted. It was a bald case of piracy accompanied by circumstances indicating an intention to injure and delay the complaint.

“This record presents no such features; it shows the usual conditions obtaining in patent causes. The defenses—lack of novelty and invention, non-infringement and insufficient description—presented debatable questions, and it cannot be said that the defendant’s course was actuated by malice or bad faith.

\* \* \*”

See also:

*Remington Rand, Inc. v. Art Metal Const. Co.*, 34 F. 2d 693, 698;

*Creagmile v. John Bean Manufacturing Co.*, 45 USPQ 28, 32, 33;

*Toledo Computing Scale Co. v. Moneyweight Scale Co.*, 178 Fed. 557.

In the *Creagmile v. John Bean* case, Judge McCormick reviewed the findings of a special master, which included findings recommending increased damages. Judge McCormick in allowing the exceptions of the defendants to the report on this question stated:

“Defendants’ objection 36 to the special master’s report is sustained for the reasons assigned in the foregoing memorandum. There is no basis for a finding of deliberate, willful and flagrant infringement so as to form a basis for extraordinary or punitive damages.”

The trial court has reserved the question of wilful infringement and has not delegated authority to the special master to make any findings thereon. All of the facts upon which the question of wilful infringement should be concluded by the trial court are in the record. Under the law as established in the foregoing cases as applied to the facts, included in the record before the trial court and now before this court, it would have been an abuse of discretion for the trial court to enter a judgment that the damages as finally determined on an accounting should be increased pursuant to the provisions of Section 70. With all the facts before it necessary to resolve the question of wilful infringement, this court should so determine.

### Conclusion.

The appellants submit that the record on appeal upon the question of validity of the Moss patent in suit, as found by the trial court in paragraph II of the amended interlocutory judgment [R. 92], shows conclusively that the trial court clearly erred in said finding and that the same should be set aside. The record on appeal clearly establishes that the Moss patent in suit, and particularly claims 2 and 7 thereof, are invalid because:

1. The alleged invention of the claims in issue amounts to nothing more than the exercise of mechanical skill and was obvious to anyone skilled in the art.

2. The patentee Moss failed to comply with the provisions of Section 33 of Title 35, U. S. C., in that there is not sufficient disclosure in the specifica-

tions to enable one skilled in the art to construct and operate the alleged invention and the claims in issue are not sufficiently definite in setting forth the invention.

3. The claims in issue, if broadly construed, are covered by structures and devices used in the art prior to the date of the Moss invention.

4. Each and every of the elements of the claims in issue, both separately and in combination, function in the same manner in said claims that they would function in prior art devices and structures and the resultant of said combination claims is the same as the resultant of the elements when used separately.

The appellants, upon the question of infringement, submit that appellants' spoolers as shown in Pltfs. Ex. 10-E do not infringe claim 2 of the Moss patent because:

1. Each and every of appellants' spoolers found to infringe by paragraph III of the amended interlocutory judgment [R. 92] do not embody the combination of elements included in claim 2.

2. Appellants' spoolers found to infringe, and each of them, do not obtain the same result as the combination of elements of claim 2 for the reason that noticeable resistance is imposed on the wire line by all of appellants' spoolers as contrasted with absence of noticeable resistance on the line allegedly obtained by the combination of elements of claim 2.

3. Appellants' spoolers found to infringe, and each of them, when suspended and in use have a different mode of operation than the combination of elements

of claim 2, which covers the suspension of the spooler included therein.

4. Claim 2 when interpreted in the light of the specifications and drawings, and without being enlarged by such interpretation, is so limited that it does not cover the combination of elements of appellants' spoolers.

The appellants further submit that with respect to the question of validity the trial court failed to apply the test of infringement of combination claims laid down by the Supreme Court in *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp.*, 95 L. Ed. 162, 340 U.S. 147. and that with respect to the question of validity the trial court failed to consider claim 2 as a combination claim and to determine that question upon the record in view of the established cases governing the law as to equivalents.

The amended interlocutory judgment [R. 92, 93] should be reversed as to paragraphs II, III, V and VI, and that paragraph VII should be reversed upon the questions of wilful infringement and attorneys' fees.

Respectfully submitted,

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No. 12,849.

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

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PATTERSON-BALLAGH, INC. and BYRON JACKSON CO., INC.,

*Appellants,*

*vs.*

PERRY M. MOSS and PHOEBE E. MOSS,

*Appellees.*

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## APPELLEES' BRIEF.

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FILED

MAR - 7 1952

PAUL P. O'BRIEN  
CLERK



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## APPELLEES' BRIEF.

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### A Full Statement of the Case.

Before taking up specifically, a consideration of amendments or changes in appellants' statement of the case, we want to present the following complete statement, which we know aided Judge Weinberger greatly in his disposition of the case: This action was originally instituted by Perry M. Moss as plaintiff, who, on January 16, 1948, assigned his entire right, title and interest in and to the letters patent in suit immediately to be described, to his wife, Phoebe E. Moss, together with all right to recover for past infringement thereof. On pre-trial, February 3, 1948, said Phoebe E. Moss requested leave to file an amended, substituted and supplemental complaint, setting up her ownership of the patent in suit and her right to recover for past infringement thereof, which was granted, defendants to answer said complaint within three days.



Said answer of defendants has since, on February 7, been filed.

In said action as originally filed, and in said amended and supplemental complaint, infringement is charged of claims 2 and 7 of letters patent of the United States No. 2,190,880, granted to said Perry M. Moss, February 20, 1940, on an application filed January 21, 1938.

The subject-matter of said patent is quite simple, and easily understood, and it will be sufficient for present purposes to state that the subject-matter is described in the short, descriptive title of said patent as "Draw Works Line Controller" and its nature is very lucidly described in opening paragraphs of said letters patent as follows:

"This invention is a draw works line guide or controller for deep well rigs.

Such draw works are designed to wind and unwind powerful cables which lift and lower tackle and work strings of many tons weight. If the helices of the wire cable or line, as it is called, do not coil true along the drum cylinder in lateral lay and if they tend to build up in overlapped turns out of true the cable will, when subjected to tension by load, suddenly slip centripetally of the drum wraps with a very serious jar through the tense line to the crown pulley and rig, but the more immediate detriment is the disastrous chaffing and breaking of the wire strands of the costly cable. The off-true and overlap of windings is caused by lateral vibrations of the cable line between the drum and an overhead crown works.

Various devices have been proposed whereby to so control the running line that it will wind true along the drum but such devices have not been sufficiently successful to go into even moderate use in the oil fields, and such as have are not maintained in service.

It is an object of this invention to provide a line or cable control of such construction and combination as not only to eliminate the lateral whip or vibrations but also to so engage the cable that it will be least subjected to lateral surface contact and pressure incident to its use."

We have in evidence, in the taking of the Moss deposition later referred to, a model oil well derrick and a model of the device of the patent in suit, which will enable the court to understand it very readily.

While the patent generally is charged to be infringed, we have specified particularly claims 2 and 7, believing with our present knowledge that such are the only claims which have been infringed by defendants or either of them. Said claims read as follows:

"2. A draw works drum line controller body having an elongate, line receiving bore, a pair of opposite lateral control devices each including parts diverging toward the opposite ends of and connected to said body to stabilize it against vibration on its minor axis in the plane of said devices, and a suspension means connected to said body at a point eccentric to the major axis and adjacent to one end of the body to support the body in normal position with the bore substantially parallel and contiguous to the line for reception thereof substantially without load of the body on the line when this is in a vertical plane transverse to the axis of the draw works drum.

7. A draw line control apparatus including a shell structure, bearing means mounted in the shell, means for suspending the shell to receive and pass the said draw line, bridle means extending toward opposite sides of the shell, and oppositely directed arms rigidly secured to the shell and to which the said bridle means

are respectively connected; said suspending means including a device hitched to the shell at a point eccentric to its bore to cause the shell to hang at a desired angle from the vertical; and said shell consisting of elongate opposed sections, and band parts secured to said sections and having connected hinge eyes at one side of the shell and opposed lugs for fastening means at the opposite side of the shell.”

The original plaintiff, Perry M. Moss, is and has been so ill that he was not able to be present at the trial, but his deposition was taken and filed with many exhibits in September, 1947. Witnesses were present at the trial who corroborated all parts of Mr. Moss' deposition.

### **Vitally Important Documents To Be Offered in Evidence.**

We shall offer in evidence a certified copy of the file wrapper and contents (application proceedings resulting in the grant) of Letters Patent of the United States No. 2,238,398, granted to John E. Reed on April 15, 1941. This is the patent which was referred to in defendants' pre-trial brief on page 3 thereof, beginning line 10, under which defendants were operating prior to their charged infringement and, contrary to counsel's statement, were *not* operating under since, but are still operating under and in violation of the Moss patent in suit.

It will be shown to be true that there was apparently a very slight difference between the subject-matter of claims 2 and 7 and the disclosure of the Reed patent, BUT this difference was shown very clearly by the evidence to be the difference between success and failure.

A matter of great importance in connection with said Reed patent just above referred to, under which defen-

dants admit they were operating (and wrongfully alleged they are still operating) is that at page 48 of said Reed patent application proceedings. Reed, through his attorneys, Lyon and Lyon, requested the Patent Office Examiner in charge of said application to, by amendment, add a claim (No. 23) very similar to the claims of the Moss patent sued on, but omitting the hanging means constituting a most important essence of the Moss patent in suit. In the argument in support of said application, Reed, through his attorneys, said (page 49, Reed file wrapper) :

“The above claim has been copied from claim 2 of the Moss patent No. 2,190,880, issued February 20, 1940, on an application filed January 21, 1938.

Claim 23 differs from claim 2 of the Moss patent only in that it omits the recital that the suspension means is connected ‘adjacent to one end of the body.’ Claim 23 is drawn under the practice of *Card & Card* with the request that an interference be declared between applicant’s claim 23 and claim 2 of the Moss patent. The two devices are substantially identical and the limitation omitted from claim 23 does not affect the patentability of the claim.

On April 17, 1940, assignee of the present application received a notice charging infringement by the device of this application of the Moss patent, and an interference proceeding appears to be the proper mode of determining any issue of priority that may exist. Substantially the same subject-matter is claimed as can be seen from allowed claim 17.

The foregoing amendment is not intended as a complete response to the Patent Office action of April 15, 1940, but is made for the purpose of facilitating a prompt declaration of interference. Respectfully submitted.”

The great importance of this matter is that after having *adjudicated* by the grant of the Moss patent in suit, that the subject-matter referred to in said last-quoted argument involved invention and was not anticipated by any reference cited, the Patent Examiner AGAIN decided the same question in Office Action of June 22, 1940, page 50, file wrapper contents of Reed, as follows:

“In response to amendment filed June 8, 1940.

The proposed amendment of June 8, 1940, requesting an interference and presenting a claim numbered 23 alleged to be substantially similar to claim 2 of the patent to Moss No. 2,190,880 issued February 20, 1940 has not been entered for the following reasons:

No interference would exist even if claim 23 were entered, as it is essentially different from claim 2 of the patent to Moss. One of the objects of the invention of Moss, page 1, lines 31 to 40, is to provide a line controller which in its normal working position forms a guide along the axis of the cable so that the cable may run quite free from bearing contact pressure. As can be seen clearly from Fig. 1 of the drawing of Moss the line 2 slopes from the draw works drum to the top of the derrick p and to carry out the object noted above the line controller must also hang at the same slope as the line 2. Moss accomplishes this by suspending his controller at one end 12 by line 14. Therefore proposed claim 23 presented by applicant without the limitation ‘and adjacent to one end of the body’ in reference to the position of the ‘suspension means’ omits a relevant part of claim 2 of Moss and upon which the last 5 lines of function in claim 2 depends. Applicant’s device as disclosed in this case has no suspension means adjacent to one end of his body but provides his suspension means at the center of his body. The



function in the last 5 lines of proposed claim 23 is not accomplished by applicant's device and is not disclosed in this case.

It is also noted applicant has not complied with the requirements of Rule 94 as he has not specifically applied the terms of the copied claim to his own disclosure.

For the above reason claim 2 of Moss is considered to be patentably different from proposed claim 23 and proposed claim 23 is therefore not admitted in this case.

The case is still under the final rejection of April 15, 1940."

After this last-quoted Office Action, Reed, through his attorneys, acquiesced in the ruling, *i.e.*, did not appeal to the Board of Appeals from said Office Action, and allowed the Reed patent to issue on theretofore allowed claims not pertinent to any of the present issues.

We offered in evidence also the file wrapper contents (application proceedings) of the Moss patent in suit to show that *all* patents listed in defense as alleged anticipations or in support of an argument of lack of invention of the subject-matter of the Moss claims allowed *were fully and completely and carefully considered by the Patent Office*, not only in the Moss application proceedings, but also in those of the Reed patent above referred to under which defendant had theretofore been operating, and thus granted the patent, and doubly affirmed it by, after the grant, rejecting an attempt to secure an interference with the Moss claims, deciding that Moss could make the claim and had, but Reed could not because not disclosed in Reed's patent.

We remind that in their answer to the supplemental complaint of the successor in interest of said Perry M. Moss, Phoebe E. Moss, defendants list in their complaint in the attack upon validity, ten United States patents, among which is Reed, and we have already stressed the fact that each and all of these patents had been fully carefully and doubly considered by the Patent Office, as shown in both file wrappers of Moss and Reed.

**Elementary and Well-settled Law  
Applicable to the Circumstances  
Just Set Forth.**

The immediately foregoing stated circumstances greatly increase the presumption of validity of the Moss patent in suit, as the following authorities will show :

In *Warren Telechron Co. v. Waltham Watch Co.*, 91 F. 2d 472, a decision by the Circuit Court of Appeals for the First Circuit, June 30, 1937, before Wilson and Morton, Circuit Judges, and Morris, District Judge, opinion by Morton, at the middle of the second column, page 473, the court said :

“The file wrapper and contents show that the Examiner gave the matter careful and competent attention. The patents which he first cited against the application were not anticipations, as he later recognized, and are not now relied on as anticipations. He concluded that the application, notwithstanding the simplicity of the device, showed invention. His judgment is not to be set aside unless we are satisfied that he was wrong and that the step which Warren took was obvious to anybody in that art.”

In the case of *Schumacher et al. v. Buttonlath Mfg. Co.*, 292 Fed. 522, a decision by the Circuit Court of Appeals for the Ninth Circuit before Morrow and Hunt, Circuit Judges, and Dietrich, District Judge, after remarking (first paragraph, page 531) that the invention (in that case, plaster board) may display invention of a high order, said:

“Have the plaintiffs, in their process of making plaster board, displayed such invention? The expert examiners of the Patent Office say they have, and a patent was issued to plaintiffs on such examination. The patent itself is *prima facie* evidence that the patentee was the first inventor. At least it casts upon him who denies it the burden of sustaining his denial by proof *beyond a reasonable doubt*. *Smith v. Good-year Dental Vulcanite Co.*, 93 U. S. 486, 498, 23 L. Ed. 952; *San Francisco Cornice Co. v. Beyrle*, 195 Fed. 516, 115 C. C. A. 426; *Consolidated Contract Co. v. Hassam Paving Co.*, 227 Fed. 436, 440, 142 C. C. A. 132; *Los Angeles Lime Co. v. Nye* (C. C. A.), 270 Fed. 155, 163; *Selectasine Patents Co. v. Prest-O-Graph Co.* (D. C.), 267 Fed. 840, 843.”

Another important decision of the Circuit Court of Appeals for this circuit is *San Francisco Cornice Co. v. Beyrle*, 195 Fed. 516, before Judges Gilbert and Morrow, Circuit Judges, and Wolverton, District Judge. At the beginning of the opinion, page 518, the court says:

“[Morrow, Circuit Judge (after stating the facts as above).] The defense to the action rests upon two grounds: First, that the patent is void for the want of invention or discovery; and, second, that the defendant has not infringed.

With respect to the first defense, the rule is that the burden of proof is upon the defendant to estab-

lish this defense, for the grant of letters patent is *prima facie* evidence that the patentee is the first inventor of the device, or the discoverer of the art or process, described in the letters patent and of its novelty. *Smith v. Goodyear Dental Vulcanite Co.*, 93 U. S. 486, 489, 23 L. Ed. 952; *Lehnbeuter v. Holthaus*, 105 U. S. 94, 26 L. Ed. 939. *Not only is the burden of proof to make this defense upon the party setting it up, but it has been held that every reasonable doubt should be resolved against him.* *Cantrell v. Wallick*, 117 U. S. 689, 695, 6 Sup. Ct. 970, 29 L. Ed. 1017. [Our italics.]”

Such law has been repeated many times by the Supreme Court, as will appear on final argument.

In other words, the patent in suit is charged with a capital offense of invalidity, and, in order to convict, the same rule as in a murder trial is applicable, *i.e.*, the offense must be proven *beyond a reasonable doubt*.

We have stated that the file wrapper contents of both Reed and Moss in suit show that the Patent Office carefully considered all references stated as being relied upon by defendants in their attacks upon validity in this case.

In Walker on Patents (Deller's Edition), page 2010, Section 701, the author says:

“The presumption of validity is strengthened by the circumstance that the alleged anticipating patent was considered by the Patent Office in connection with the application for the patent in suit. [*Hale & Kilburn Mfg. Co. v. Oneonta, etc. Ry. Co.*, 129 Fed. 598, 600 C. C. N. Y. (1904); *Beckwith v. Malleable Iron Range Co.*, 174 Fed. 1001, 1012, C. C., Wis. (1910); *New Jersey Wire Cloth Co. v. Buffalo Expanded Metal Co.*, 131 Fed. 265, 268, C. C., N. Y. (1904); *J. A. Mohr & Son v. Alliance Securities*

Co., 14 F. (2d) 790, C. C. A. 9 (1926); Einson Freeman Co. v. Int. Folding Paper Box Co., 21 F. (2d) 701, 703, D. C., N. Y. (1927); Nordberg Mfg. Co. v. Woolery Machine Co., 79 F. (2d) 685, 687, C. C. A. 7 (1935); Gulf Smokeless Coal Co. v. Sutton Steele & Steele, 35 F. (2d) 433, 437, C. C. A. 4 (1929), cert. den. 280 U. S. 609, 74 L. Ed. 652 (1930).]”

Another important Ninth Circuit case is *J. A. Mohr & Son v. Alliance Securities Company*, 14 F. 2d 799, October 18, 1926, before Circuit Judges Gilbert, Hunt and Rudkin. At the end of their opinion, the court says:

“And the presumption that a patented combination is new and useful and embodies invention has added force where, as here, it appears that the patents relied upon as showing anticipation were considered by expert patent office officials. While their judgment is not absolutely binding on a court, it is entitled to great weight and is to be overcome only by clear proof that they were mistaken and that the combination lacks patentable novelty. *Fairbanks v. Stickney*, 123 F. 79, 59 C. C. A. 209; *Hale & Kilburn Mfg. Co. v. Oneonta, C. & R. S. Ry. Co.* (C. C.), 129 F. 598; *MacClemmy v. Gilbert Corset Co.* (D. C.), 221 F. 73; *New Jersey Wire Cloth Co. v. Buffalo Expanded Metal Co.* (C. C.), 131 F. 265.”

In the case of *Beckwith v. Malleable Iron Range Company*, 174 Fed. 1001, Circuit Court, E. D. Wisconsin, at the middle of page 1010, it is said:

“The law is well settled that such prior accidental production, when the character and function were not recognized until the patented invention came into being, cannot be relied upon by way of anticipation. *Walker on Patents* (4th Ed.) 67; *Wickelman v. Dick Co.*, 88 Fed. 264, 266, 31 C. C. A. 530; *Tilghman*



v. Proctor, 102 U. S. 707, 711, 26 L. Ed. 279; Pittsburgh Reduction Co. v. Cowles Co. (C. C.), 55 Fed. 301; Chase v. Fillebrown (C. C.), 58 Fed. 377."

### **Other Defenses Set Up in Defendants' Answer—Laches.**

We cannot, at the time of preparing this brief, more than surmise what, on behalf of appellants, will represent as proven or attempted to be proven, and therefore cannot effectively anticipate in this brief. However, we do know that appellee has not been guilty of the laches charged, and are sure that the same can be thoroughly shown on argument of this appeal.

### **Other Defenses.**

We cannot completely visualize or anticipate how the ten patents set up in the answer will be attempted to be used; but we again here remind that, as heretofore stated and explained, each and every one of those patents have been fully considered by the Patent Office before the grant, and therefore, under the authorities heretofore cited, this strengthens the presumption of validity.

### **The Defense of Alleged Prior Use.**

Again in our pre-trial brief we could not fully anticipate how such defense will be attempted to be proven. Nevertheless, we are confident after proceeding thus far that there has not been and could not be any such alleged prior use necessary to defeat either of the claims in suit.

Respectfully submitted,

WESTALL AND WESTALL (JOSEPH F.  
WESTALL and EDWARD F. WESTALL),

By JOSEPH F. WESTALL,

*Attorneys for Plaintiff and Nominal Plaintiff.*

We are agreeing with the statements of opposing counsel on pages 1, 2, 3 and 4 of the text of the opening brief for appellants but DO NOT agree with appellants' statement on page 5 of said brief which reads as follows: NOT as indicated. As to page 7 of appellants' brief: to be correct it should read as follows: "but we sold one in April 1937 and appellants thereafter continued right along with their infringement. We agree with their statements on pages 8 and 9 thereof; but on page 10, accuracy calls for the correction 1.(a) to which we add it was not obvious until Moss did it. As to paragraph 1(b) there is no sufficient proof of the assertion contained in said paragraph. As to appellants' 1(c) the Smith patent shows an eye on each side, near the middle, but the evidence shows that Appellants did not make them the same as Smith. As to page 11(d) we certainly did claim it and it was allowed. As to page 12 of appellants' said statement, counsel are mistaken in asserting that the hanging lines functioned to *support* the spooler, as this line, as shown in Defendants' Exhibit B is slack.

On behalf of appellees on this appeal we rely upon each and every of the patents which have been cited and relied upon on behalf of appellants on this appeal; but contend that none of them is of any real pertinence to any of the issues in this case. If opposing counsel should contend otherwise, we shall answer it fully on the oral argument of this appeal.

We also rely upon Walker on Patents, Deller's Edition, and particularly on the text beginning Section 84, page 347 of Volume 1 of Walker on Patents, just above cited. Said Section 84 relating to experimental use, and as to what constitutes experimental use, and cases cited page 347, and on page 338.

I WANT TO CALL YOUR HONOR'S ATTENTION TO THE OPINION OF JUDGE WEINBERGER, DISTRICT JUDGE WHO TRIED THE CASE; WHICH BEGINS AT PAGE 20 OF THE PRINTED RECORD. EVERY CIRCUMSTANCE OF FACT AND LAW, WAS MOST THOROUGHLY CONSIDERED AFTER MANY ARGUMENTS, FIRST ON ONE POINT AND THEN ON ANOTHER, UNTIL ALL FACTS AND LAW WERE BEFORE THE COURT. I HAVE BEEN ENGAGED IN MANY PATENT AND TRADEMARK CASES OVER VERY MANY, MANY YEARS, FIRST IN CHICAGO AND LATER IN LOS ANGELES, AND I HAVE NEVER SEEN SO COMPLETE AND THOROUGH A DECISION AS THAT OF JUDGE WEINBERGER.













